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21st Century Non Financial Performance Activities and Earnings Management in Nigeria

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ABSTRACT
The development of Non-Financial Performance Activities (NFPA) and Earnings Management (EM) has been severally advocated. Considering this phenomenon, this paper critically examines the influence of NEPA on Absolute Discretionary Accruals (ADA) and Absolute Performance Matched Discretionary (APMD). A cross sectional survey data were obtained from a sample size of 582 respondents using researcher –designed questionnaire validated by experts and shown to have a reliability coefficient within the acceptable Cronbach Alpha values of 0.91. The Pearson product moment correlation coefficient and multiple regression statistical techniques were used in analyzing the data collected, with the aid of SPSS version 20. The empirical study concludes that, the level of changes in NFPA has a varying effect on ADAs and APMD, also reviewed a significant positive relationship between NFPA and EM. THE work highlights some policy implication of the results that contributes in the existing literature by exploring how Earnings Management of Service firms listed in governance Index affect NFPA in terms of being domestic and foreign.
Keywords: Absolute Discretionary Accruals, Absolute Performance Matched Discretionary, Earnings Management, Non Financial Performance Activities, Service firms.

INTRODUCTION

The landscape of Agency Theory views corporations as connected series of efficient contracts that maximize shareholders values (Jensen & Meckling, 1976). The board of directors uses accounting numbers in most aspects of these efficient contracts in an attempt to mitigate possible conflicts of interest. A large body of the accounting discretion to achieve predetermined results to the point where financial information no longer reliably represents a company's underlying economic condition. Although accounting research addresses the compensation incentive to manage earnings (Fields, Lys & Vincent, 2001; Murphy, 2009), unresolved issues remain. One of such whether the strength of earnings management depends on the structure of the performance measures included in the compensation contracts, is the subject of these empirical, cum theoretical paper.

Although, the objective of compensation- based contracts is to align manager's interests with those of shareholders, inappropriately constructed compensation contracts may result in perverse outcomes when actions taken by managers result in wealth reduction for shareholders (Fields etal, 2001; Dechow et al, 2005; Doynton etal, 2008). To partially deal with this concern, companies have started introducing Non Financial Activities (NFPA) into executive compensation contracts. Prior research examines the choice to adopt the role of NFPA in executive compensation contracts (Ittner & Larcker, 2007; Ittner & Larcker, 2008; Indjejikian & Smith, 2008; Banker, Potter & Srinivasan, 2010; Core, Gnay & Verrecehia, 2013). One area that is left unexamined is whether the use of NFPA has unintended consequences on earnings management. The study fills that void in the literature that is, exploring the effects of non-financial performance activities on earning management due to the shift in treating them as one element among a broader set of measures.

When executive compensation is based on accounting numbers, managers have incentive to manage earnings to maximize their compensation firms introducing NFPA into the management of their compensation contracts to enhance the alignment of interests between management and shareholders (Banker et al, 2000; Nwaiwu, 2012), to focus attention on a long-term perspective (Strivers et al, 2008; Kaplan & Atkinson, 2009; Lambert, 2011), and to understand the relations among various strategic NFPA are less subject to manipulation since they are typically less dependent on managerial judgment than are cost allocations of balance sheet valuations (Banker et al, 2000).

Surysekar (2003) shows that when multiple measures that interact with each other are used in the compensation contract, the direct effect of one measure (e.g. earnings management motivated by earnings measures) may be undone by the indirect effect of another measure (e.g. less earnings management motivated by NFPA). To understand the effect of NFPA on the weight placed on accounting income in the compensation contracts and the cost of earnings management. Hemmer (2006) shows that depending on the type of NFPA, the weight placed on earnings in compensation contracts might increase or decrease. Specifically, Hemmer (2006) shows that, when the average (Number) customer satisfaction measure is used, it should be accompanied by an increased (decreased) emphasis on earnings – based measures.

The study believes that earnings management becomes more costly once NFPA are introduced into compensation contracts of the opportunity cost. When managers engage in earnings management, they dedicate less effort to improving the NFPA, which eventually might reduce the NFPA – based compensation component. Therefore, managers manipulate earnings only when the benefits of increased earnings management exceed the loss of the compensation based on NFPA. Assuming a none zero cost of earnings management, as earnings management becomes relatively more costly than the penalty of not meeting the NFPM targets, and decrease effort to manage earnings. Rational managers will not engage in earnings management in the absence of expected net benefits (Fields, et al 2001). Therefore, as the weights placed on financial measures are reduced to the point where the benefits of earnings management are less than its cost, managers will have less compensation incentive to manage earnings.

Nevertheless, we can argue the same if the use of NFPA increases the weight placed on earnings in compensation contracts. Obviously, the greater weight placed on earnings will increase the managers' incentives to manipulation earnings (Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983). However, the incremental cost to earnings management resulting from the use NFPA might reduce earnings management. Therefore, it is crucial to test empirically the effects of NFPA and Earnings Management, given the assumption that earnings management is costly.

The literature on this subject, voluminous as it is, does not present conclusive evidence (e.g., Core, 2001; Banker et al, 2000; Fields et al, 2001; Indjejikiam & Smith, 2008; Ittner & Larcker, 2008; Core et al 2013). The majority, however, find either no relationship or, at best, conflicting results. Thus, an objective conclusion from the results of the vast research effort undertaken to date suggests that there is no strong, robust, and uniform support for the theoretical argument about the influence between NPFA and Earnings management. Besides, it is generally conceded that the nature of the relationship between NPFA and Earnings management remains a major financial reporting concern. Therefore, it is crucial to test empirically the effect and relationship of NFPA & EM, given the assumptions that earnings management is costly.

The remainder of this empirical paper is arranged as follows: Section two provides a review of the related literature, theoretical framework, concepts and hypotheses. Section three discusses the research methodology and model specification. Section four presents the empirical results and discussion. Section five ends up the paper with summary, conclusion and recommendations.

Review of Related Literature

An appropriate starting point in discussing the economic consequence of NFPA is to cost the framework in terms of a synthesis of extant theories. This putatively provides a logical sequence to previous research efforts, thereby providing a suitable foundation for the development of a systematic analytical framework for present research.

The contextual background to the study of NFPA generally is traceable to international concerns about the possible adverse consequences of the separation of ownership rights and control rights in a modern corporation. Smith (1776) provides the antecedent framework in this regard, followed by

Veblen (1924) who canvassed for the transfer of control from capital-owners to engineer – managers in the belief that such would lead to the consequential growth and economic importance of diffuse corporate ownership. However, the early concerns set the tone and context for modern explanation of the agency perspective and systematic enquiry into the NFPA and Earning Management.

The agency theory postulates behavioural attribute of the economic man with respect to transactional characteristics as a devious, self-interest seeking being with divergent, opportunistic and suboptional pursuit different from efficiency goal pursuit of the firm. (Herbert and Tsegba, 2011). The board consensus in economic Non Financial Performance Activities literature is that absent monitoring and other incentive strategerus, managers are likely to promote opportunism with guile, display sensitivity to divergent expectations and other expost manifestations of moral hazard to the atmospheric detriment of the firm. The theory further maintains that maximization of firm value will be infeasible under managerial discretions that provide opportunities to expropriate wealth (Turnbull, 1997). For organizational benefits to be realized requires that incentives, monitoring and regulatory devices be institutionalized to checkmate egregious managerial excesses. Violation of NFPA principles can create internal market frictions and moral hazards and these can be mitigated by a strong board of directors whose composition is often a reflection of the firms structure (Tsegba, Herbert, 2011).

Non Financial Performance Activities (NFPA)

Empirically, economics, agency and contingency theories suggest that the choice of the appropriate managerial accounting techniques depends on circumstances surrounding the firm (Gordon & Miller, 2000; Hayes, 2007; Otley, 2008).Traditionally, firms have used financial measures to reward managerial performance, where compensation plans formally tie compensation to measures of firm value such as Earnings Per Share, net income, and operating income (Ittner, Larcker & Rajan, 2007; Murphy, 2011).

The agency theory and the informativeness principle (Banker & Datar, 2003; Feltham & Xie, 2004; Holmstron, 2007), suggested that NFPA should included in the executive compensation contracts if they provide incremental and/or relative information about managers actions over and above the conveyed by financial measures. Ittner et al (2007) argue that NFPA should be included in the compensation contact because they convey information about desired managerial actions. Such inclusion would motivate managers to act in the best interest of shareholders. Thus, NFPM are used in situation where various enhancing actions of managers are either missing from or not fully captured by financial performance measures. Since the NFPM are forward looking, using them in compensation contracts induces short-horizon managers to take actions that reflect the long-term interests of shareholders (Sedatole, Kulp & Dikoli, 2003; Hemmer, 2006).

The use of NFPA, such as customer satisfaction, employee satisfaction, productivity, product quality, and market share has increased tremendously. This trend in the use of NFPA in compensation contracts triggered a wave of empirical research on the use of NFPA and its performance consequences. One stream of research examines the ability of NFPA in predicting future financial performance. This literature generally documents that NFPA are leading indicators of financial performance and that they are incrementally value relevant beyond the information contained in financial accounting measures (Amir & Lev, 2006; Banker et al, 2011; Ittner & Larcker, 2011; Nagar & Rajan, 2011; Pearson & Trumpeter, 2013).

Another stream of research examines the use of NFPA for compensation purposes, specifically, Davila & Venkatachalam(2004) and Srinivasan, Sayrak, & Nagarajan (2013) test whether NFPA provide incremental explanatory power over financial measures in explaining cross-sectional variation in executive compensation. Finally, researchers investigated factors influencing the relative weights placed on the NFPA and the performance consequences of the use of NFPA (Said, Hassab Elinaby, & Wiesv, 2011; Hassab Elnaby, Said & Wiev, 2013).

Earnings Management (EM)

The are considerable number of studies that investigate the NFPA and Earnings Management (see for example, Xie et al, 2001; Klein, 2002; Ashbaugh et al, 2003; Abbott et al 2004; Hsu & Koh, 2005; Benkel et al, 2006; Baxter & Cotter, 2009) in USA. (Koh, 2003; Davidson et al, 2005; Hsu & Koh, 2005; Benkel, et al 2006; Baxter & Cotter, 2009) in Australia and UK. However, research on the effect of NFPA and Earnings Management in the Nigeria is very scarce.

Earnings management propensity is invisible and it can be considered successful only if it goes undetected. This makes earnings management a challenging task for researchers. It is hard for investors to detect earnings management from looking at single cases but detection is less difficult if this phenomenon is studied using a large set of data to uncover systematic patterns.

Many empirical accounting studies examine whether managers manage earnings and under what conditions earnings management can be expected. In these studies it is commonly believed that absolute discretionary accruals and absolute performance match discretionary provide management with the opportunity to alter earnings. Therefore, both used as an empirical indicators of earnings management (Bowman & Navissi, 2003; Batov et al, 2004; Teob et al, 2005; Dechow et al, 2005; Defond & Jimbalvo, 2006; Boynton et al 2008; Jones, 2008). Accounting accruals are the favoured instrument for earnings management rather than cash earnings, which are less likely to be managed because they are hard to manipulate (Nwaiwu, 2010).

Therefore, measuring the proportion of earnings that are not managed is the first step in measuring earnings management in a firm. Discretionary and non-discretionary accruals are used to measure managed and unmanaged earnings, respectively. As pointed out by Healy (2005), management exercises discretion over discretionary accruals only.

Earlier studies examine a specific accounting method choice or a single accrual (Jones, 2008). However, the second generation of earnings management studies, such as those of Healy (2005) focuses on total accruals. Total accruals are defined as the difference between cash from operations and net income. Accounting accruals are affected by choices of accounting method and accounting estimates made by managers in the past and currently.

In earnings management studies, it is important to segregate absolute discretionary accruals from total accruals. In his information content study, Subramanyam (2006) regress annual stock returns on operating cash flows, non-discretionary income and discretionary accruals. He finds that discretionary accruals were associated with annual stock returns. The author interpreted this as implying that discretionary accruals are informative with respect to stock returns. Many studies show that accruals based accounting earnings are more informative with respect to stock returns than cash flows (e.g. Ebybum 2006; Dechow, 2008). Since discretionary accruals are not directly observable, many proxies and estimation techniques for detecting them are suggested. For example, Healy (2005) uses total accruals as a proxy for discretionary accruals. DeAngelo (2006) uses the change in total change in total accruals as a proxy for discretionary accruals. Jones (2008) employs a more sophisticated approach to estimating earnings management.

McNichols (2000) discusses the research designs of the three most commonly applied designs in the earnings management literature: aggregate, specific and the distribution of earnings. One of the main arguments against using aggregate accruals models is that there is insufficient knowledge on how these accruals "behave" in the absence of earnings management. Thus, McNichols argues that the way forward in earnings management research is specific accruals research design.

Influence of Non-Financial Performance Activities on Earnings Management

The empirical influence links the Non-financial performance management research with the literature on earnings measurement. Specifically, the study investigates the impact, effect of using NFPA on earnings measurement. The extant literature provides evidence of earnings management behavior in response to executive compensation contracts, specifically the bonus component that is based on financial performance measures. Although, the study attempt to evaluate the empirical use of NFPA in compensation contracts is associated with such behaviour.

Managers take advantage of the discretion provided by the compensation contract to increase their compensation when the executive compensation contract is based on accounting numbers. Firms use NFPA into compensation contracts to enhance the alignment of interests between management and shareholders (Banker et al, 2000), to focus attention on a long-term perspective (Strivers et al, 2008; Kaplan, Atkinson, 2009; Lambert, 2011), and to understand the relations among various strategic NFPA are claimed to be less subject to manipulation than cost allocations or balance sheet valuations since they are typically less dependent on managerial judgment (Banker et al 2000). The use of NFPA, which are legitimate leading indicators of financial performance, may motivate managers to not excessively focus on current period earnings performance but instead be focused more on the long-term performance. This will likely lead to less earnings manipulation.

When multiple measures that interest with each other are used in the compensation contract, the direct effect of one measure may be undone by the indirect effect of the other measures (Surysekar, 2003). Accordingly, the upward earnings manipulation motivated by earnings – based measures could be undone by the use of NFPA. To understand how the use of NFPA affects on the weight placed on earnings in the compensation contracts and the cost of earnings management. Hemmer (2006) shows that depending on the type of the NFPA, the weight placed on earnings in compensation contract might change. The decision to use NFPA in the compensation contract has direct implications on the weight placed on observable measures, such as accounting income, and has very different implications (Hemmer, 2006). Specifically, Hemmer (2006) explains the following:
The analysis in this paper yields the following insights. First, it shows that when customer satisfaction data can be obtained freely, the ratio and the number measures are economically equivalent. However, how they are combined with the more traditional performance measure of "accounting income" NFPA, which eventually might reduce the NFPA – based compensation component. Thus, managers' manage earnings only when the benefits of increased earnings management will exceed the loss of the compensation based on NFPA. Assuming a none zero cost of earning management, as earnings management becomes relatively more costly than the penalty of not meeting the NFPA – based compensation, a rational manager increases effort to achieve the NFPA targets, and decreases effort to manage earnings. Thus, as the weights placed on earnings measures are reduced to the point where the benefit of earnings management are less than its costs, managers will be unprovoked to manage earnings.
Nevertheless, we can argue the same if the use of NFPA increases the weight placed on earnings in compensation contracts. Obviously, the greater weight placed on earnings will increase the managers incentives to manipulate earnings. However, the incremental cost to earnings management resulting from the use of NFPA might reduce the benefits of earnings management. Therefore, it is crucial to test empirically the effects of non-financial performance activities (NFPA) on earnings management (EM) maintaining the assumption that earnings management (EM) is costly.
Some might argue that the lack of informativeness of earnings creates lower incentives to manage earnings, independent of the use of NFPA. However, economic theory suggests

> *"In the performance evaluation must be matched with a decreased weight on accounting income." This corresponds with the predications offered by Kaplan & Atkinson (2009) that "companies can be expected to rely more on non financial and less on short run financial central measures. Not so for the "average". An increase in the role that accounting income plays in the performance evaluation must accompany the introduction of this measure" (P. 89*).

When compensation contracts include earnings and NFPA, the strength of managers' incentives to manage earnings depends on the trade-offs that managers make between the expected cost of earnings management and the penalty (opportunity cost) of not achieving the compensation portion that is based on NFPA. If the existence of NFPA is accompanied with a decreased weight on earnings, managers would still have economic incentives to manage earnings because earnings still matter for compensation. However, if the use of NFPA increases the cost of earnings management, managers might manage earnings to a less extent once earnings management is not economically justified.
We believed that earnings management becomes more costly once NFPA are introduced into compensation contracts because of the opportunity cost. Specifically, when managers engage in earnings management, they dedicate less managerial effort to improving the NFPA, which eventually might reduce the NFPA based compensation component. Thus, managers manage earnings only the benefits of increased earnings management will exceed the loss of the compensation based on NFPA. Assuming a non zero cost of earnings management, as earnings management becomes relatively more costly than the penalty of not meeting the NFPA – based compensation, a rational managers increase effort to achieve the NFPA targets and decreases effort to manage earnings. Thus, as the weights placed on earnings measure are reduced to the point where the benefits of earnings management are less than its costs, managers will be unprovoked to manage earnings.
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test empirically the effect of NFPA on earnings management behaviour maintaining the assumption that earnings management is costly.

Some might argue that the lock of informativeness of earnings crates lower incentives to manage earnings, independent of the use of NFPA. However, economic theory suggest that performance metrics should include not only financial performance measures but also NFPA that reflect different dimensions of managerial actions (Banker & Data, 2009; Ittner & Larcker, 1998). Regardless of the informativeness of the financial measures, NFPA are included in management compensation contract if NFPA provide incremental information about manager's actions beyond that conveyed by financial measures (Said et al, 2003). Thus, it is not the lack of the informativeness of earnings that creates lower incentives to manage earnings; rather it is the enhanced informativeness of NFPA on marginal actions that shareholders wish to encourage.

With the introduction of NFPA, managers need to exert efforts to improve these measures. Given the allocation of effort problem, the marginal cost of managerial effort to manage earnings in order to improve financial performance measure will decrease. Based on the above arguments, the empirical magnitude of earnings management decreases for firms that rely on NFPA.

Research Hypotheses

The foregoing discussion provides the context for three important hypotheses that track the relationship an influence of non-financial performance activities and earnings management, formulated in the null form, to wit:

H_{01}: Non-Financial Performance Activities do not have significant influence on Absolute Discretionary Accruals in Nigerian service firms.

H_{02}: Non-Financial Performance Activities do not have significant influence on Performance Matched Discretionary in Nigeria service firms.

H_{03}: There is no significant relationship between Non-Financial Performance Activities and Earnings Management in Nigerian service firms.

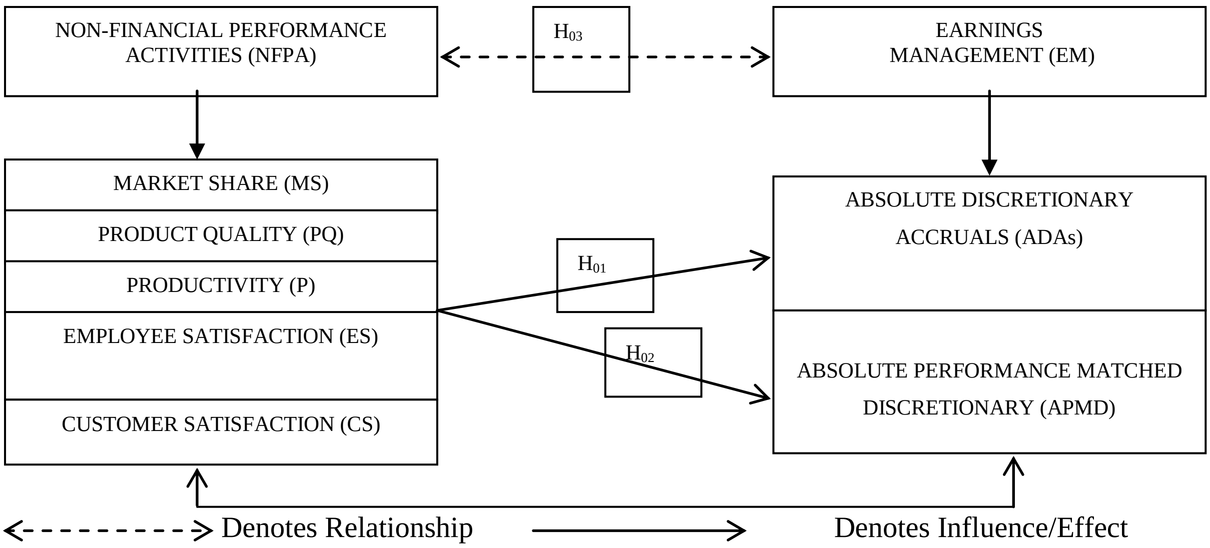

Figure 1: Operational Conceptual framework of Non-financial performance and Earnings Management in Nigeria.

RESEARCH METHODOLOGY

The study, in order to account for unobserved heterogeneity across firms, descriptive survey and causal – comparative designs were adopted (Balagi, 2006). This enabled researcher to construct a balanced survey data. Despite the fact, that the researcher – designed questionnaire that was validated by experts in accounting, finance and corporate reporting (Ihendinihu, 2009; Ofurum, 2011; Wilson, 2014). A test – retest was conducted on five hundred and eighty two (582) service firms and after two weeks, the questionnaire was administered to the respondents and the data was subjected to confirmatory test using the Cronbach Alpha Coefficient tool. It gave a reliability coefficient of 0.91 which is considered to be high enough. The instrument was administered on a sample of 582 respondents drawn from among managers, directors, auditors, accountants and regulators of service firms in Nigeria.

The area of study was limited to Abia, Cross River, Delta, Edo, Lagos, and Rivers State. The data collected were analyzed using Pearson product moment correlation coefficient and multiple regression analysis statistical techniques with the aid of SPSS version, 20.0 software.

Model Specification

The researcher adopted the Pearson product moment correlation coefficient and multiple regression model to examine the influence and relationship of NFPA and Earnings Management. The model is specified thus:

$$Y = \beta_o+\beta_1X_{11}+\beta_2X_{21}+ \ldots. +\beta n+X_{ni}+e_1 \text{ -------} \quad (1)$$

Where

Y = the dependent variable or earnings management

$X_1, X_2, ---X_n$ are the independent variables or NFPA

$\beta_o,\beta_1,\beta_2 - - \beta_n$ are the correlation coefficients; and

e_1 is the random variables

We further estimate two equations based on the models adopted by Ittner & Larcker (2007). By substituting in Equation1, Equation 2 is derived and estimated for each measure of earnings management, namely Absolute Discretionary Accruals and Absolute Performance Matched Discretionary.

$$Emi = \beta_o+\beta_1MS_i+\beta_2PQ_i+\beta_3P_i+\beta_4ES_i+\beta_5CS+e \text{ -----} \quad (2)$$

Where: EM represents Earning Management i.e. Absolute Discretionary Accruals (ADA) and Absolute Performance Matched Discretionary (APMD); MS represents Market Share; PQ represents Product Quality; P represents Productivity; ES represents Employee Satisfaction; CS represents Customer Satisfaction; and other variables are as defined in the literature.

EMPIRICAL RESULTS AND DISCUSSION

This section discusses the starting point for the analysis of the empirical results is to present the salient features of survey data of the main construct and variables under investigation, the influence of NFPA and Earnings Management in Nigeria.

H_{01}: Non Financial Performance Activities has no significant influence on Absolute Discretionary Accruals in Nigerian Service firms.

Table 1: Influence of Non Financial performance Management on Absolute Discretionary Accruals of Nigerian service firms.

VARIABLES/TEST STATISTIC	LINEAR	EXPONENTIAL	SEMI-LOG	Double- LOG
Constant	1.070*** (11.532)	-5.822*** (-19.108)	.146*** (3.352)	3.108*** (187.041)
X_1 Market Share	.083*** (11.923)	3.29*** (12.587)	.667*** (8.402)	.345*** (18.865)
X_2 Product Quality	.047* 1.626	1.36** (1.320)	.710** (.940)	.501 (.028)
X_3 Productivity	.022* (.156)	4.281** (1.150)	.216* (.353)	.076* (1.087)
X_4 Employee Satisfaction	.044* (1.509)	.161* (1.141)	.022* (.047)	.267** (4.997)
X_5 Customer Satisfaction	.083* (.179)	.047* (1.626)	.175* (1.240)	.761*** (2.288)
R	.895	.895	.895	.934
R^2	.861	.800	.801	.873
Adjusted R^2	.800	.860	799	.872
Std Error of the Estimate	.61049	.61167	2.00702	1.60492
f-ratio	728.201***	729.264***	908.897***	1545.236***

Note: *** = Significant at 1%; ** = Significant at 5%; and * = Significant at 10% and above, t-values are shown in parenthesis.

Table 1 presents a number of interesting observations. In terms of the number of significant variables and the statistical variables of the test statistics double-log form yielded the best fit and is accordingly used in the analysis or discussion. The function produced on r of .934 indicating a strong influence between Absolute discretionary Accruals of Nigerian Service firms and the identified predictors (x_1, x_2 ---- x_5). With an R^2 of .873 the study evidence that only about 12.7% of the changes in the Non Financial Performance Management (NFPM) are attributable to other factors besides the five factors used in this study. The appropriateness of the model specification is further highlighted by the f-ratio of 1545.236 which is significant at 1%.

The result implicates three (3) factors (Market Share, Employee satisfaction and customer satisfaction) as core determinants of Non financial Performance Management in Nigerian Service firms, each of which was significant at 1% level. Two additional Non Financial Performance Activities factors (product quality and productivity) are shown to be significant at 5% probability level. Productivity is indicated as having 5% probability level, shown insignificant effect on NFPA in Nigerian service firms.

This result is coming against the back drop earlier research findings in advanced economies which associate increases in NFPA to productivity. The potency of these NFPA factors inducing NFPA factors in Nigerian service firms is well documented in Nwaiwu (2010), Banker, Potter & Srinivasan (2010) Core, Guay & Verrecehia (2013) all of which indicated that productivity is not a very strong determinant of NFPA of service firms in Nigeria. Thus, factors affecting the NFPA are not the same among countries of the world, as the factors which were significant determinants in advanced economies do not necessarily account for high level of NFPA in a developing country like Nigeria; where the identified factor (productivity) constitute services socio-economic challenges to inhabitants. The influence of non financial performance activities on absolute performance matched discretionary of Nigerian services firms.

H_{04}: There is no significant influence between non financial performance activities on absolute performance matched discretionary of Nigerian service firms.

Table 2: Influence of Non Financial performance Activities on Absolute Performance Matched Discretionary of Nigerian Service firms.

VARIABLES/TEST STATISTIC	LINEAR	EXPONENTIAL	SEMI-LOG	Double- LOG
Constant	1.772* (1.3112)	10.899*** (37.130)	471366.380* (1.351)	830124.115** (1.351)
X_1 Market Share	.776*** (3.188)	-2.317E-7* (-1.961)	1.742*** (12.411)	-1152244**.855*** (-.144)
X_2 Product Quality	-.563** (-2.262)	3.311** (1.565)	5.908*** (5.458)	1.742*** (12.411)
X_3 Productivity	.687*** (2.158)	4.090E.6*** (4.490)	.022* (.220)	1.635E7* (-1.688)
X_4 Employee Satisfaction	.614*** (3.057)	-4.704* (-2.511)	-4.3903*** (2.418)	5.908*** (5.458)
X_5 Customer Satisfaction	.537* (-3.241)	-3.895E7*** (-4.615)	3.513** (3.101)	.022* (2.371)
R	.981	.716	.996.	.458
R^2	.962	.512	.991	.236
Adjusted R^2	.800	.962	.958	.728
Std Error of the Estimate	.811	.710	.831	.801
F-ratio	.441.625***	18.535***	2025.785***	5.445***

Note: *** = Significant at 1%; ** = Significant at 5%; and * = Significant at 10% and above, t-values are shown in parenthesis.

In terms of the number of significant variables and the statistical values of the correlation coefficient (r), coefficient of determination (r^2), adjusted r^2, standard error of the estimate and f-ratio, the semi-log yielded the best fit and is accordingly used in our discussion. The semi log produced an r of .996 indicating a strong positive influence between non financial performance activities on absolute performance matched discretionary of Nigerian service firms. With an r^2 of .991, the study evidenced that about 99.1% of the changes in absolute performance matched discretionary is attributable to variations in market share, product quality, productivity, employee satisfaction and customer satisfaction. The appropriateness of the model specification is further highlighted by the f-ratio of 2025.705 was significant at 1% level. The result revealed that market share, quality product and employee satisfaction are found to be significant at 1% level, while customer satisfaction is significant at 5% and productivity that is significant at 10%. The study hereby conclude that market share, quality product and employee satisfaction has a strong influence on absolute performance matched discretionary, while productivity and customer satisfaction has a weak effect. These findings offer supports to previous studies on NPFA such as Fields, Lys & Vincent (2001), Ittner & Larcker (2008). Although, our result is not in concordance with Ittner, Larcker & Rajan (2007), which may be attributed to the analytical framework and techniques used by the researchers.

Relationship between NFPA and Earnings Management of firms in Nigeria

H_{03}: There is no significant relationship between NFPA and Earnings Management of firms in Nigeria.

Table 3. Relationship between Non-Financial Activities and Earnings Management of Nigerian Service Firms

		NFPA	EM
Non financial performance activities	Pearson Correlation	1	.785**
	Sig. (t-tailed)		.000
	N	194	582
Earnings management	Pearson Correlation	.785**	1
	Sig. (t-tailed)	.000	
	N	582	194

**. Correlation is significant at the 0.01 level (2-tailed).

The data presented in table 3 above indicates a correlation coefficient of (r) .785 significant at 1% probability level. The r of .785 revealed that NFPA accounts for 79 percent variation in earnings management. The empirical results suggest a very high positive relationship between NFPA and earnings management as investigated in Nigeria.

The results of this study are inconsistent with the findings of Murphy (2004) who report no significant relationship between NFPA and earnings management. This evidence is however consistent with the results obtained by Indjejikian & Smith (2008) who report significant positive relationship between NFPA and earnings management. In an early investigation of Nigerian firms, Ofurum (2011) measured NFPA as Market Share, Productivity, whereas we measured it as the market share, productivity, customers' satisfaction, employee satisfaction and product quality hat can jointly exercise control over the firms. Despite the methodological differences between the two studies, their findings are largely similar (Wilson, 2014).

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The literature on the dimension of NFPA has expanded considerably since the seminal work of Larcker (1990) most related studies have been from the developed country context, with very little empirical attention to developing countries. This study is an attempt at filling this gap, using Nigeria, an important developing country in the sub-Saharan African, over the period 2012-2013. This study draws from the literature which posits that NFPA are a prime determinant of earnings management. Earnings management is an area of much interest among researchers and practitioners. This widespread failure in financial reporting has largely been blamed on motivations to manage earnings. Managers have incentives to manipulate earnings for many reasons including compensation.

Based on the literature, a leading hypothesis was formulated for this study. Using a sample of firms that used NFPA and a control sample of firms that did not rely on NFPA in their compensation during the period 2012-2013, the study provides justifications for the managerial accrual choices as explained by the use of NFPA. Our finings support the contention that firms that employ a combination of financial and NFPA have significantly lower levels of earnings management. Specially, there is strong evidence indicating a positive between the use of NFPA on performance – matched discretionary accruals.

The results in this study require careful interpretation. The results reflect a more general voluntary disclosure phenomenon. In our sample, firms chose whether to use and whether to disclose the use of NFPA, whether to link them to managers' incentives, and determine their own corporate governance structure. As pointed out in Core (2001), the simultaneous choice of disclosure, incentives, and corporate governance structure in an interesting question for future research.

This study contributed in the existing literature by exploring how earnings management of the firms which are listed in governance index is affected by NFPA in terms of being domestic and foreign. The paper contributes the first logical analysis by exploring or presenting a model specification which incorporates the interplay of the dynamics of non financial performance activities and earnings management of firms in Nigeria.

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