International Journal of Business & Law Research 6(1):27-38, Jan.-Mar., 2018

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Corporate Governance and Income Smoothing in the Nigerian Deposit Money Banks

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ABSTRACT
This work examined corporate governance mechanism and income smoothing in deposit money banks in Nigeria. This study became necessary following the increasing failures of deposit money banks in Nigeria upon the clean bill of health given to them by both internal and external auditors. The study aimed to examine the relationship corporate governance mechanism (CEO duality, board size, ownership concentration and audit committee) and income smoothing. Firm size and leverage were introduced as control variables. This study is anchored on agency theory. The study adopted ex post facto research design. Four deposit money banks were studied for the period ranging from 2012 to 2016. Eckel (1981) index was employed in determining income smoothing. Multiple regression analysis was employed in analyzing the data. The study suggests that income smoothing of deposit money banks largely depends on the corporate governance mechanisms, particularly in the form CEO duality, ownership concentration and the existence of audit committee. Banks with ownership concentration may have higher propensity to smooth income. The empirical results also demonstrate that board size is not effective in monitoring income smoothing. The study concludes that corporate governance has significant relationship with income smoothing in Nigeria deposit money banks. The study contends that corporate governance mechanism should be strictly adhered to by the banks in order to reduce the incidence of artificial income smoothing. This will help to improve the quality and reliability of accounting information in deposit money banks in Nigeria.
Keywords: Corporate Governance and Income Smoothing

INTRODUCTION

Corporate governance and income smoothing is currently one of the burning issues that is dominating the agenda of the business world and scholarly research. Unsurprisingly, a series of regulatory measures (corporate governance reforms) have been developed in the corporate environment to mitigate the impact of these high-profile scandals and failures as a result of artificial income smoothing. Undoubtedly, one of the major imprints of the corporate governance reform regime has been the thrust to improve or enhance the reliability of reported financial information. There has been a considerable debate in recent times concerning the need for strong corporate governance (McConomy and Bujaki, 2000), with countries around the world drawing up guidelines and codes of practice to strengthen governance (Cadbury, 1997, Corporate Governance Code of Nigeria, 2005). Corporate governance has been perceived as a vital tool in assessing the company`s health, especially under conditions of financial distress, such as the financial crisis. Adeyemi and Temitope (2010) noted that the weakness of corporate governance is perhaps the most important factor blamed for the corporate failure, reason why the issue of good corporate governance practices gains a vivid importance, especially after the economic and financial crisis. Recent corporate scandals such as Enron Corporation, Lehman Brothers, WorldCom, Heath International Holdings (HIH) Insurance Group and Board of Control for Cricket in India (BCCI) have played a critical part in attracting the increased attention and spotlight on corporate governance issues (Abdelfatah, 2014). Abdelfatah (2014) further noted that these high-profile corporate and audit failures have also generated an unprecedented interest in the accounting profession, particularly as it relates to income smoothing. Consequently, there are many more questions emerging than answers for the known lapses in the accounting system that may have facilitated these corporate failures and crises.

Income smoothing is a measure of the accounts manipulation theme that has been attracting a great attention in the recent accounting literature. Corporate managers may be motivated to smooth their own income (or security), assuming that income stability and growth rates are preferred than higher average income streams with greater variability (Samak, El Said & El Latif, 2014). Samak, El Said and El Latif (2014) maintained that there are two types of income smoothing: intentional, which is based on a real intention, and artificial income smoothing. Real (intentional) income smoothing indicates management actions that seek to control economic conditions that directly affect corporate earnings in the future. This kind of income smoothing affects cash flow. On the contrary, artificial income smoothing can show manipulation which is undertaken by management to smooth the earning. Francis et al. (2004) highlight that smoothing helps in eliminating uncertainty regarding reported income; however, this can compromise the informational level with regards to the structure of company payments, which is of interest to investors. The authors offer a complementary perspective on the influence of smoothing over persistence, from the possibility of an increase in persistence, due to transitory fluctuations in series of earnings being mitigated.

Empirical evidence abounds on the relationship between corporate governance and income smoothing. Xie and et al. (2003) found that income management happens less in those corporations whose non-bound members' ratio is more than the total members. They have also found the relation between auditory committee members combination with the level of income management. Yang, Murind and Ding (2007) found that the proportion of Chinese firms practicing income-smoothing is greater than those of Singaporean, Japanese and U.S. firms. Income smoothing in China is more severe when the state is the controlling shareholder of the listed firm. Firms with more independent directors are more likely to engage in income smoothing. Ali and Marziyeh (2012) found that a significant relationship between institutional stockholders' possession percent, non-bound members' percent and internal auditor with income smoothing. Also, Chi-Yih, Boon and Xiaoming (2012) found that income smoothing is more severe when the state is the controlling shareholder of the Chinese listed firm. They also found that governance mechanisms such as board of directors, supervisory board, audit committee, external auditors, and shareholders' participation are not effective in curtailing income smoothing in China. Fodio, Ibikunle and Oba (2013) also found that board size and board independence are negatively and significantly associated with earnings management for listed Insurance companies in Nigeria.

The vast majority of the corporate governance and income smoothing literature focuses on developed countries. Very little is known about the relationship between corporate governance and income smoothing in developing countries like Nigeria especially as it affects deposit money banks. However, sound corporate governance practices are equally, if not more important, in countries that are attempting to gain credibility among global investors. This is particularly so in Nigeria as the country attempts to regain investor confidence following widely reported financial crises. Therefore, the purpose of this study was to ascertain the relationship between corporate governance variables (CEO duality, board size, ownership concentration and audit committee) and income smoothing. Firm size and leverage were introduced as control variables.

LITERATURE REVIEW

Corporate Governance

The task of defining the concept of corporate governance is enormous, yet a clear definition of the concept is very essential in order to create the needed awareness and to achieve good practice in Nigeria and beyond. Described as a nebulous concept, Wilson (2006) defines corporate governance as the manner in which corporations are directed, controlled and held to account with special concern for effective leadership of the corporations to ensure that they deliver on their promise as the wealth creating organ of the society in a sustainable manner. Jayashree (2006) defines corporate governance as a system of making directors accountable to shareholders for effective management of the companies in the best interest of the company and the shareholders along with concern for ethics and values. It is a management of companies through the board of directors that hinges on complete transparency, integrity and accountability of management. The scholar puts it in another dimension: Corporate governance is concerned with the establishing of a system whereby the directors are entrusted with responsibilities and duties in relation to the direction of corporation affairs. It is concerned with accountability of persons who are managing it towards shareholders. The Report of Securities and Exchange Board of India (SEBI) Committee defines corporate governance as the acceptance by the management of the inalienable rights of shareholders as the true owners of the corporation and their own role as trustees on behalf of the shareholders. It is about commitment to values, ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.

Wekipedia (2017) defined corporate governance as a system of structuring, operating and controlling a company with a view to achieving long term strategic goals to satisfy the shareholders, creditors, employees, customers and suppliers and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. Moreover, corporate governance is described as the set of processes, customs, policies, laws and institutions affecting the way a corporation or company is directed, administered or controlled. It also includes the relationship among the many stakeholders involved, the board of directors, employees, customers, creditors, suppliers and the community at large (Wikipedia, 2017). In the view of Isele and Ugoji (2009), corporate governance is the process by which managers provide leadership and direction, create enabling climate and link systematize collaborative efforts to work groups.

Corporate governance mechanisms vary widely across countries and firms (Doidge, Karolyi & Stuls, 2007). The nature of a country's characteristics—such as cultural, financial and economic factors and regulations development—play an important role in firms' decisions to implement certain governance mechanisms. In countries with less legal protection for investors and looser takeover governance mechanisms, ownership concentration is viewed as a substitute governance structure that ensures greater protection for investors (John & Kedia, 2006). Moreover, the level of financial transparency and disclosure is related to the origin of law and cultural differences (Hope, 2003). The prior literature presents several dimensions of governance in developing countries, such as board structure (Lin & Liu, 2009), ownership structure (Tsamenyi et al., 2007; Yuan, Hua & Junxi, 2007; Zureigat, 2011), board composition (Haniffa & Huduib, 2006; Veysel & Ekrem, 2006), audit committee (Abdul & Ali, 2006; Jaggi & Leung, 2007) and external audits (Fan & Wong, 2005).

Income Smoothing

Income smoothing has varied definitions based on existing literatures. Vakilifard and Allame (2001) defined income smoothing as a technique used by a company manager to reduce the change in the reported amount of income by means of artificial or real earnings management so that it can reach a desired income level. Belkaoui (2006) see income smoothing as the reduction of income fluctuations from year to year by transferring income from the years of high earnings for the periods that are less favorable. Healy and Wahlen (1999) noted that income smoothing occurs "when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers." Michelson, Jordan-Wagner, & Wootton (1988) define income smoothing as an accounting practice in which managers of accounting selectively reduce fluctuations that arise in profits during accounting exercises according to a framework of generally accepted accounting principles.

Yang, Murinde and Ding (2008) identified three basic incentives for managing earnings. They include capital market expectation and stock price; accounting based contracts; anti-monopoly and other government regulations. Income smoothing is one form of earnings management. Martinez (2001) notes that the term "earnings management" is broader than this practice alone, as it involves a number of different manipulation techniques, aside from smoothing, which are used to reduce variability in results or to make it grow gradually. When income is deliberately and artificially smoothed, inadequate or misleading earnings disclosure may result. Consequently, investors may not get sufficiently accurate information about earnings to evaluate the returns and risks of their portfolios. Ronen and Sadan (1981) argued that income smoothing can be accomplished in three ways. First, management can plan the occurrence of certain events over which it has discretion (e.g. research and development) or time the recognition of such events. Second, management can allocate certain revenues and expenses over different accounting periods. For example, management can choose either the straight-line or the accelerated method of depreciation. Third, management may have the discretion to classify certain income items into different categories (e.g. between ordinary items and extraordinary items).

There are several metrics that can verify the presence of income smoothing. Among these metrics are Eckel's model (1981) and a metric developed by Leuz, Nanda, & Wysocki (2003). The income smoothing metric developed by Leuz et al. (2003) uses the standard deviation of the operating profit divided by the standard deviation of the operating cash flow to generate a new variable that aggregates all of the observations of a firm over the years.

Corporate Governance and Income Smoothing

Financial reporting is considered the main link between the company and its external parties, as it provides information about a company's economic situation and performance. The integrity of financial reporting is highly dependent on the performance and conduct of those involved in the financial reporting process, particularly directors, management and auditors (Samak, El Said, & El Latif, 2014). Financial information is considered the first source of independent and true communication about the performance of company managers. This relevance makes financial reporting a main attraction to management influence (Sloan, 2001). That is why corporate governance principles give a lot of attention to the rules for Disclosure and Transparency. There have been serious concerns about financial reporting integrity, effective corporate governance, and the relationship between them. This relationship has been strongly discussed in developed countries and recently in emerging markets. The emphasis of most of the studies was placed on specific governance mechanisms: board size and independence, audit committee existence, audit committee independence, size and frequency of meetings and financial literacy of its members.

A number of recent studies highlight the role of non-executive and independent directors in improving the quality of information. Beasley (1996) found that the financial statement fraud in the American firms decreased with the percentage of outside directors. Also, Bushman, Chen, Engel and Smith (2004) conclude that the information quality increases with the percentage of outside directors. Byard, Li and Weintrop (2006) proved that the high number of directors ensures the value relevance of financial statements. In addition to the board independence, the separation between the positions of CEO (chief executive officer) and board chairman was investigated and resulted in positive outcomes, indicating that the presence of a CEO who serves also as the board chairman is associated with poor quality of financial information. Similarly, Beekes, Pope and Young (2004) highlights that financial reporting is more relevant, in the case of separating the positions of the CEO and the board chairman. Klai and Omri (2011) found that Tunisian firms are characterized by a lack of board independence, which reduced the quality of reporting. In contrast, Bradbury, Mak and Tan (2006) found that that independent directors are not enough competent to control the managers and their presence in the board has no effect on the quality of reporting.

The audit committees play a role in guaranteeing the integrity of financial reports. Several studies demonstrate that the presence of audit committees is effective in reducing the occurrence of misleading financial statements. Bedard, Chtourou and Courteau (2004) found that earnings management is negatively related to fully independent audit committees. Abdulrahman and Ali (2006) found an insignificant relationship between independent audit committees and earnings management. Lin and Yang (2006) found a negative relationship between the size of an audit committee and earnings manipulations. On the contrary, Fodio, Ibikunle and Oba (2013) found positive relationship between audit committee independence and discretionary accruals.

It is worth noting, however, that Dichev et al. (2013) provide evidence of conflicting positions with regards to smoothing: on one hand, it is seen as a desirable feature of stability; on the other hand, it is interpreted as an opportunistic and misleading attitude. In accordance with Graham, Harvey, and Rajgopal (2005), executives worry about conveying business stability, with a strong perception that the market rejects uncertainty and values predictability of results. Torres, Bruni, Castro, and Martinez (2010) present evidence of the mitigation of smoothing by the presence of better corporate governance, indicating that firms with more concentrated capital can practice smoothing in order to meet the interests of majority and controlling shareholders, altering minority shareholders' perceptions of risk. Lyra and Moreira (2011) analyze smoothing related to corporate governance, focusing on special segments of the BM&FBOVESPA, and present evidence of a smaller proportion of companies with smoothing in the segment with greater governance.

Theoretical Framework

This research work was anchored on agency theory. The 1976 article ―Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure by Jensen and Meckling helped establish Agency Theory as the dominant theoretical framework of the corporate governance (CG) literature, and position shareholders as the main stakeholder. The adoption of the agency logic increased during the 1980‘s as companies started replacing the hitherto corporate logic of managerial capitalism with the perception of managers as agents of the shareholders (Zajac et al. 2004). The subsequent stream of literature would break with the tradition of largely treating the firm as a black box and the assumption that the firm always sought to maximize value (Jensen 1994). Agency theory addressed what had become a growing concern, that management engaged in empire building and possessed a general disregard for shareholder interest, what Michael Jensen called "the systematic fleecing of shareholders and bondholders", through providing prescriptions as to how the principal should control the agent to curb managerial opportunism and self-interest. As the market reacted positively to this change in logic, with time the agency approach became institutionalized in the practice of CG, within business education, research and media.

Agency theory explains how to best organize relationships in which one party determines the work while another party does the work. In this relationship, the *principal* hires an *agent* to do the work, or to perform a task the principal is unable or unwilling to do. For example, in corporations, the principals are the shareholders of a company, delegating to the agent *i.e*. the management of the company, to perform tasks on their behalf. Agency theory assumes both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Thus, if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet, agents are supposed to act in the sole interest of their principals. To determine when an agent does (and does not) act in their principal's interest, the standard of "Agency Loss" has become commonly used. Agency theory argues that the separation of ownership and management creates agency problems and information asymmetry among corporate stakeholders (Jensen & Meckling, 1976). Governance mechanisms mitigate these agency costs, with higher levels of corporate governance resulting in better monitoring and control of management behaviour, enhanced financial reporting quality (Cohen et al., 2004) and reduced information asymmetry between a firm's principles and agents (Healy & Palepu, 2001). As a result, investors and shareholders can depend on reliable and credible reported financial information to make informed investment decisions that improve capital resource allocation (Healy & Palepu, 2001).

This theory is relevant to this study in that it is able to explain how good corporate governance can affect quality of financial reports in an organization. With higher level of corporate governance mechanism, shareholders and investors can monitor and control management and this will enhance the quality of their reporting. This will help to reduce the incidence of artificial income smoothing by management thereby distorting the financial information arising from their operations. This is based on the fact that this reports aid both the shareholders and investors in making informed decision about the organization. There is consensus in the governance literature that controlling shareholders can rely on external monitoring by high-quality external auditors to restrict management expropriation through improving the quality of financial reporting (Cohen et al., 2004; Fan & Wong, 2005). Jensen and Meckling (1976) argue that the cost of external audits is part of the bonding costs that owners must bear in order to mitigate agency problems.

Empirical Review

Samak, El Said and El Latif (2014) examined corporate governance and income smoothing in Egyptian listed companies. The Paper first distinguishes between false financial statements and non-false financial statements based on Eckel index. The paper then builds a corporate governance index based on corporate responsibility index after required modifications, of 57companies listed in the Egyptian stock exchange. The financial information of the companies was examined during the period 2007 to 2012. Univariate and Multivariate analyses were applied in analyzing the data. For the univariate tests the study compared the (CGI) and control variables (Size, ROE, and Sales) across the false financial statement and the non-false financial statement. The results show a significant difference between the means of the two panel sets. In addition to the univariate tests the study also use a multivariate logit model to test the hypotheses. The results proved to be inconsistent with the univariate analysis results, reflecting insignificant negative relationship between Ekcle index and all other control variables.

Ali and Marziyeh (2012) examined corporate governance mechanism and income smoothing in Iran. 138 corporations quoted on the Tehran stock market were selected for the study covering the period between 1999-2008 period. Three hypotheses were introduced and tested to find whether there is a significant relationship between institutional stockholders' possession percent, non-bound members' percent and internal auditor with income smoothing. Results indicate a significant relation of all three selected mechanisms for corporate governance system and income smoothing. So, internal auditor and increase in institutional stock-holders'\ percent lead to income smoothing reduction, but there is a positive relationship between non-bound members' percent and income smoothing.

Yang, Murinde and Ding (2008) examined ownership structure, corporate governance and income smoothing in China. The study aimed to examine empirically whether ownership structure and corporate governance mechanisms affect income-smoothing behavior in China. 1353 companies listed in the Shanghai Stock Exchange and the Shenzhen Stock Market were studied. The study covers the period between 1999 to 2006. By comparing the variability of income to the variability of sales, an income smoother can be identified if the income stream is less variable. It was discovered that the proportion of Chinese firms practicing income-smoothing is greater than those of Singaporean, Japanese and U.S. firms. Income smoothing in China is more severe when the state is the controlling shareholder of the listed firm. Firms with more independent directors are more likely to engage in income smoothing. This article presents the current development of China’s corporate governance system and indicates that agency conflicts between controlling shareholders and minor investors account for a significant portion of earnings management in China.

Mahdi and Nazanin (2011) examined the effect of income smoothing on the informativeness of stock price using empirical evidence from the Tehran Stock Exchange. The purpose of this paper is to investigate whether income smoothing does indeed improve the informativeness of stock prices about firms' future earnings and cash flows. This study uses data from 1992-2006 and runs regressions on each of the 560 industry-year cross-sections. The data compiled from the financial statements of firms were collected for each year available from the Tehran Stock Exchange database. Smoothing is measured as the variation of net income relative to the variation in CFO, or the correlation between changes in accruals and changes in CFO. Informativeness is measured as the coefficient on future earnings (cash flows) in a regression of current stock return against current and future earnings (cash flows and accruals). The study found that income smoothing enhances the information content of the effect of stock price on future earnings, thus improving the ability of market participants to make informed decisions about the allocation of capital resources.

Chi-Yih, Boon and Xiaoming (2012) examined corporate governance and income smoothing in China. The purpose of this paper is to examine empirically whether corporate governance mechanisms have an effect on income-smoothing behavior in the People's Republic of China. The sample comprises 1,358 companies listed in the Shanghai Stock Exchange and the Shenzhen Stock Market during the period 1999 to 2006. By comparing the variability of income to the variability of sales, an income smoother can be identified if income is less variable than sales. The findings indicate that income smoothing is more severe when the state is the controlling shareholder of the Chinese listed firm. Firms with more independent directors are more likely to engage in income smoothing. The governance mechanisms such as board of directors, supervisory board, audit committee, external auditors, and shareholders' participation are not effective in curtailing income smoothing in China.

José, Alfredo, Ricardo and Eduardo (2012) examined the effects of income smoothing practices on the conservatism of public companies listed. The aim of this study was to investigate two aspects of accounting information that may be inherently related: income smoothing practices and conditional conservatism. Theoretically, the more a firm employs income smoothing, i.e., uses accruals to reduce the variability of profits, the less possibility there is for the timely acknowledgement of future economic losses (i.e., bad economic news) in profits. Eckel’s model (1981) was used in this study to classify listed companies as smoothing or non-smoothing, and Basu’s model (1997) was used to quantify the degree of conditional conservatism present in each firm. To make the results more robust, samples were created with annual stock return data from both March and December. The results indicated that non-smoothing firms had a higher degree of conditional conservatism. The study found a relationship between income smoothing and conditional conservatism (i.e., accounting choices). The study also revealed that the informational environment of the Brazilian capital market contributes to the market distinction between smoothing and non-smoothing firms.

Moh and Winny (2014) examined income smoothing evidence in Indonesia. The aim was to determine the factors that affect income smoothing on the National Private Commercial Foreign Exchange Banks that listed in Indonesia Stock Exchange. Variables used in this study are the firm size, profitability and financial leverage. Eckel Index (1981) was used to measure income smoothing, where net profit after tax as income smoothing object. The sample was taken by random sampling of 10 private foreign exchange national banks that listed in Indonesia Stock Exchange (IDX) during the years 2009 to 2013 with a sub-sample of 50 financial reports. Testing is done through panel data analysis technique with simultaneous test (F test) and partial test (t test) was used to identify factors that affect income smoothing. The results showed that income smoothing is done by most of the National Private Commercial Foreign Exchange Bank listed on Indonesia Stock Exchange (IDX). Size of the company, profitability and financial leverage were found to have significant effect on income smoothing.

Mohammad and Ehsan (2011) investigated the income smoothing behavior of growth and value firms using Tehran Stock Exchange Market as the focus of the study. All firms listed in the TSE between 2003 and 2007 were examined using the Jones Model to investigate their income smoothing behaviours. Using the Jones model, the discretionary part of accruals was investigated. The results of this study revealed that growth firms tend to apply discretionary accruals more intensively than value firms. In order to support the robustness of the findings, the Eckel model, was also applied. The same result was found for the Eckel model as for the Jones model. The results indicated that growth firms achieved a higher degree of income smoothing than value firms. The effects of various confounding factors which are different between these two types of firms, such as size of the company, standard deviation of earnings, market capitalization and consecutive trend of earnings, were also investigated. The results indicated that income smoothing in growth firms is larger than in value firms, and also that other items, which are known as representatives of the risk, are larger for growth firms than for value firms.

Fodio, Ibikunle and Oba (2013) examined corporate governance mechanisms and reported earnings quality in listed Nigerian insurance firms. The study aimed at ascertaining the extent to which governance mechanisms associate with creative accounting practices in the industry. Using twenty five (25) quoted insurance firms during the period 2007-2010, the study regressed five governance mechanisms on reported earnings quality proxy. Multiple regressions were employed for the analysis using the software SPSS version 17.0. The study finds that board size, board independence and audit committee size are negatively and significantly associated with earnings management while audit committee independence and independent external audit have positive relationship with discretionary accruals.

The vast majority of the corporate governance and income smoothing literature focuses on developed countries. Very little is known about the relationship between corporate governance and income smoothing in developing countries like Nigeria especially as it affects deposit money banks. Hence, this work is hypothesized to fill this gap.

METHODOLOGY

This study adopted ex post facto research design. The population of the study comprise of all the 22 deposit banks in Nigeria. Convenience sampling was used in selecting a sample for the study. Four banks were selected as the sample for the study. The banks used as case study cut across two (2) strata: “old” generation banks and “new” generation banks. The banks chosen in most cases are those that fairly retained their identities before and after the consolidation exercise and whose published financial reports and required data were available for the whole period under review. The study covers the period of five years from 2012 to 2016. Multiple regression analysis was employed in analyzing the data.

The linear regression model is stated in a functional form as;

IS = f(CEOD, BS, AC, OC, FS, FL) - - - - - - (1)

Where IS = Income Smoothing.
CEOD = CEO Duality
BS = Board Size
AC = Audit Committee
OC = Ownership Concentration
FS = Firm size
FL = Financial Leverage

This equation can be restated in an econometric form as:

$$IS = bo + b_1CEOD + b_2BS + b_3AC + b_4OC + b_5FS + b_6FL + \mu \quad - \quad - \quad (2)$$

The variables are described as follows:

Income Smoothing: This variable is measured by the Eckel (1981) index. According to this index, the companies are divided into two groups, including smoother and nonsmoother. The Eckel index is calculated by this formula:

$$\text{Eckel index} = \frac{CV\Delta I}{CV\Delta S}$$

CVΔI: Earnings Change Coefficient of Variation
CVΔS: Sales Change Coefficient of Variation

When the amount of Eckel index is less than 1, the income smoothing has been done. Otherwise, it has not been done.

CEO Duality: Takes value 1 if there exists separation of Chairman and Chief Executive Officer (CEO), otherwise 0

Board Size: Number of directors within the board.

Audit Committee: A binary variable taking value "1" if audit committee does exist within Bank, "0" otherwise.

Ownership Concentration: A binary variable taking value "1" if the proportions of shares held by the majority share holder of the bank >20%, "0" otherwise.

Firm Size: This is denoted by the total assets of the bank.

Leverage: Financial leverage is used as a proxy to represent the nature of bank and is defined as the total debt divided by the total Equity

RESULTS

The relationship between corporate governance mechanism and income smoothing were examined using multiple regression analysis. The result of the analysis is presented in the table below.

Table 1: Multiple Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.582173	0.426546	1.364851	0.2213
CEOD	-0.911315	0.366674	-2.485355	0.0475
BS	0.027973	0.027772	1.007236	0.3527
AC	-1.022664	0.372680	-2.744081	0.0336
OC	0.825553	0.283129	2.915820	0.0268
FS	3.442310	2.695710	2.277411	0.0087
FL	-0.022373	0.040220	-0.556273	0.5981

R-squared	0.685194	Mean dependent var	0.785714
Adjusted R-squared	0.317920	S.D. dependent var	0.425815
S.E. of regression	0.351673	Akaike info criterion	1.043329
Sum squared resid	0.742043	Schwarz criterion	1.408505
Log likelihood	0.696696	Hannan-Quinn criter.	1.009525
F-statistic	1.865620	Durbin-Watson stat	2.418393
Prob(F-statistic)	0.002498		

Source: Authors Computation from E-View Version 8.0

The regression result shows a negative and significant relationship between CEO duality and income smoothing. It also shows a positive and insignificant relationship between board size and income smoothing. The result further shows a negative and significant relationship between audit committee and income smoothing. Ownership concentration has a positive and significant relationship with income smoothing. Firm size has a positive and significant relationship with income smoothing while firm leverage has negative and insignificant relationship with income smoothing.

The t-statistics value shows that CEO duality, audit committee, ownership concentration and firm size have significant has significant relationship with income smoothing in the banks studied within the review period. The f-statistic which measures the joint significance of the independent variables on the dependent variable shows that independent variables (CEO duality, board size, ownership concentration, audit committee, firm size and firm leverage) have joint significant relationship with income smoothing. The coefficient of determination (R^2) shows that independent variables (CEO duality, board size, ownership concentration, audit committee, firm size and firm leverage) jointly explain about 68.5% of the variations in income smoothing. The Durbin Watson D-Statistic value of 2.418393 shows that there is no autocorrelation in the model. Hence, the model can be used for realistic forecasts.

DISCUSSION

This work examined corporate governance mechanism and income smoothing in deposit money banks in Nigeria. The data generated were analyzed using multiple regression analysis.

The study found a negative and significant relationship between CEO duality and income smoothing. This agrees with the findings of Beekes, Pope and Young (2004) which highlights that financial reporting is more relevant, in the case of separating the positions of the CEO and the board chairman.

The study also shows positive and insignificant relationship between board size and income smoothing. This disagrees with the findings of Fodio, Ibikunle and Oba (2013) that board size is negatively and significantly associated with earnings management. Similarly, with the findings of Byard, Li and Weintrop (2006) that the high number of directors ensures the value relevance of financial statements.

The result further shows a negative and significant relationship between audit committee and income smoothing. This agrees with the findings of Ali and Marziyeh (2012) internal auditor lead to income smoothing reduction. It also tallies with the findings of Fodio, Ibikunle and Oba (2013) that audit committee size is negatively and significantly associated with earnings management. Similarly, with that of Bedard, Chtourou and Courteau (2004) whose study indicates that earnings management is negatively related to fully independent audit committees.

Ownership concentration was found to have a positive and significant relationship with income smoothing. This agrees with the findings of Yang, Murinde and Ding (2008) that income smoothing in China is more severe when the state is the controlling shareholder of the listed firm.

CONCLUSION

This work examined corporate governance mechanism and income smoothing in deposit money banks in Nigeria. The study found that CEO duality, audit committee, ownership concentration and firm size have significant relationship with income smoothing in the selected deposit money banks. Board size and firm leverage were found to have an insignificant relationship with income smoothing. The study suggests that income smoothing of deposit money banks largely depends on the corporate governance mechanisms, particularly in the form CEO duality, ownership concentration and the existence of audit committee. Banks with ownership concentration may have higher propensity to smooth income. The empirical results also demonstrate that board size is not effective in monitoring income smoothing.

Base on the significant f-statistics value, the study concludes that corporate governance has significant relationship with income smoothing in Nigeria deposit money banks. The study contends that corporate governance mechanism should be strictly adhered to by the banks in order to reduce the incidence of artificial income smoothing. This will help to improve the quality and reliability of accounting information in deposit money banks in Nigeria.

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