An Examination of the Relationship between Equity Incentives, Executive Compensation, and Discretionary Accruals Management in Quoted Nigerian Firms

*Temple Moses; Prof. C. O. Ofurum, & Dr. E. A. L. Ibanichuka

Department of Accounting, Faculty of Management Sciences, University of Port Harcourt, Port Harcourt, Nigeria
Email: drtemplemoses@gmail.com

ABSTRACT
This study examined equity incentives, executive compensation, and discretionary accruals management in quoted industrial goods firms in Nigeria. The dependent variable which is discretionary accruals management was determined using the modified Jones model while the independent variables were proxied by executive stockholdings, bonuses, and fixed salaries. Cross-sectional data were sourced from the audited financial statements of the firms. The Ordinary Least Square (OLS) method of co-integration, unit root, and Granger causality test was employed to ascertain the extent to which equity incentives and executive compensation affect discretionary accruals management. After cross-examination of the validity of the pooled effect, fixed effect, and random effect, the study accepts the random effect model. It was found that the independent variables explain only 1.8 percent variation on the discretionary accruals management. The beta coefficient of the variables found that executive stockholdings, bonuses, and fixed salaries have a negative effect on discretionary accruals management. The study concludes that equity incentives and executive compensation do not have any significant effect on discretionary accruals management in quoted industrial goods firms in Nigeria. We recommend that firms should consider the establishment of policies for executive stockholdings; management of the quoted industrial goods firms should adopt good compensation structure, welfare, and incentive packages as these would positively motivate executives and consequently improve earnings management.

Keywords: Executive Compensation, Equity Incentives, Discretionary Accruals management, Panel Data, Industrial Goods Firms, Nigeria

1.1 INTRODUCTION
The rapid rise in chief executive officers' pay over recent decades has sparked a lively debate on the determinants of executive compensation and its effect on corporate performance most especially in the developing financial markets like Nigeria. Whether chief executive officers are overpaid is central to the divergence of two main views: optimal contracting and managerial power. The managerial power view has its roots in traditional agency theory but includes the extra element of executives' ability to influence both the level and composition of their pay packages. The main implication of the managerial power view is that chief executive officers' pay is part of the problem rather than a solution to the corporate governance problem (Conyon, 2013). Bebchuk and Roe (1999) argued that chief executive officers set pay in their own rather than shareholders’ interests, and that chief executive officers pay is excessive. While chief executive officers are assumed to work for the best interest of shareholders, they can readily pursue own interests at the expense of shareholders’ interest.

Jensen and Meckling (1976) pointed out the separation of ownership and control creates a conflict between managers and shareholders. This is the agency theory that implies that managers have the intent to maximize their utility at the expense of shareholders. To align the interest of managers with that of shareholders, a firm designs management compensation contracts to constrain management to act in the best interest of
shareholders. Watts and Zimmerman (1978) extended the agency theory and developed a proposition that managers attempt to maximize their utility through the choice of accounting policies. This is the positive accounting theory and the early compensation hypothesis stems from this theory.

Accruals-based earnings management occurs when managers intervene in the financial reporting process by exercising discretion and judgment to change reported earnings without any cash flow consequences. Firms can be aggressive with their accounting choices by bringing forward earnings from a future period by speeding up the recognition of revenues or considerably slowing down the recognition of expenses in the books, thus increasing earnings in the current period. Accruals are a standard component of a firm’s transactions and as such, feature prominently in earnings management activities. Firms make a sale on credit, the sale is duly recognized as earnings not minding whether or not cash has been received or not. This leads to the creation of a receivable that is canceled when cash is finally received in the future. Accounting standards allow discretion for managers when providing financial information to stakeholders. Managers have been known to exploit this discretion by recognizing revenues before they are earned or delaying the recognition of expenses that have been incurred, which results in accruals (McVay, 2006). Studies show that managers use discretionary accruals as a way to respond to asymmetric information and agency costs in their private information and strategies for financial information (Hassen, 2014).

1.2 Statement of the Problem
In recent years, the corporate business world has been taken by tsunami storm and inundated with embarrassing corporate accounting scandals leading to the collapse of notable and reputable companies like Enron, WorldCom, Xerox across Corporation, Royal Ahold, Parmalat and more recently Satyam Computer Services in Europe, United States, Asia and the rest of the world. In Nigeria, The latest high profile corporate collapse in this category includes; Skye Bank Starcom, African Petroleum, Etisalat, Intercontinental Bank PLC, Konga Nigeria Ltd, and several others Moses (2018).

Goncharov (2005) affirmed that the core of these scandals was usually the phenomenon of earnings management. Earnings management 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 (Healy and Wahlen, 1999). Managers always aim to secure all the funds needed to keep the business running so that no external party can interfere, and at the same time managers aim to gain whatever kind of benefit they can from the business (Jin and Yoon, 2009).

The accrual account and real activity management designed by standard setters are common accounts used to manipulate earnings. Earnings are used under the accrual basis to summarize the firm’s performance which is needed by various financial information users to make decisions (Dechow, 1994). The revenue recognition and matching principles used in the accrual process are believed to help mitigate the problems of timing and matching inherent in cash flows; thus making earnings more related to performance (Dechow, 1994). However, the reliance on accruals which are part of earnings not shown in current cash flows has given management discretion on how to recognize it (Bergstresser and Philippon, 2006). This discretion can lead to asymmetric information as well as expose earnings to manipulations, thus, making earnings less reliable (Dechow, 1994). Asymmetric information makes it difficult for shareholders and investors to ascertain the extent of earnings manipulation in firms characterized by an opaque environment (Louis, 2004). Management has sometimes managed accounting earnings to the benefit of the managers at the expense of owners (Eckles et al., 2011). This implies that earnings management is a purposeful intervention by the management in the process of financial reporting to gain personal benefit and therefore it's opportunistic.

1.3 Aim and Objectives of the Study
This research work aims to investigate the relationship between equity incentives, executive compensation, and discretionary accruals management in industrial goods firms listed on the Nigeria Stock Exchange. The specific objectives of the study are to:

i. ascertain the relationship between stockholdings offered to managers and discretionary accruals management in quoted industrial goods firms in Nigeria.
ii. evaluate the relationship between bonuses offered to managers and discretionary accruals management in quoted industrial goods firms in Nigeria.

iii. ascertain the relationship between fixed salaries of managers and discretionary accruals management in quoted industrial goods firms in Nigeria.

1.4 Research Questions
The following are the research questions for the study:

i. What is the relationship between executive stockholdings and discretionary accruals management in quoted industrial goods firms in Nigeria?

ii. What is the relationship between bonuses and discretionary accruals management in quoted industrial goods firms in Nigeria?

iii. How do fixed salaries relate to discretionary accruals management in quoted industrial goods firms in Nigeria?

1.5 Research Hypotheses
The following are the formulated hypotheses for the study:

Ho1: There is no significant relationship between executive stockholdings and discretionary accruals management in quoted industrial goods firms in Nigeria.

Ho2: There is no significant relationship between bonuses and discretionary accruals management in quoted industrial goods firms in Nigeria.

Ho3: There is no significant relationship between fixed salaries and discretionary accruals management in quoted industrial goods firms in Nigeria.

2.0 Literature Review
2.1 Theoretical Framework
Theories are an essential part of the framework used to organize specific phenomena within the management and social sciences. A Theory provides a point of focus for evaluating the unknown in a specific area. From the above, we posit that a theoretical framework guides the research determines what variables to be measured and what statistical relationships to be looked for. This study is based on the ensuing theories:

2.1.1 The Principal agency theory
The Principal agency theory provides a structure for managing/classifying principal/agent relationships using the contract mechanism for which one party identified as the principal hires the other party recognized as the agent for purposes of assigning responsibility to the agent (Eisenhardt, 1989; Jesnson and Meckling, 1976). For example, shareholders acting as principal hires the manager to manage the day to day running of a business organization. While the principal and agent are expected to be dealing in cooperative activity, they will also likely have different goals and differing behaviors toward risk. Thus, in the process of their relationship, the principal and his agent will have problems related to their relationship. This problem is referred to as the agency problem. Eisenhardt (1989) encapsulates the agency problems that occur as a result of principal/agent differences as risk efficiency and production efficiency problems. In this case, the agency problem refers to situations where the goals of the principal and agent conflict, and it is difficult to verify what the agent is doing (production efficiency). In a world of complete certainty, the agent is assigned a task, the principal uses the information to verify that the agent performed the task then the principal pays the agent the agreed sum of money specified in the contract (Demski, 1976).

2.1.2 The Information Asymmetry
Information asymmetry provides an insight into understanding the phenomenon of financial information misreporting which likely stems from earnings management. In contract theory and economics, information asymmetry deals with the study of decisions in transactions where one party has more or better information than the other. This asymmetry creates an imbalance of power in transactions, which can sometimes cause the transactions to go awry, a kind of market failure in the worst case. Examples of this problem are the adverse selection of moral hazard and monopolies of knowledge (Wilson, 2008). According to Richardson (2000), information symmetry occurs when the principal has access to the same information set as the agent. Information symmetry allows the principal to accurately evaluate the agent’s
actions (effort and judgment). Under conditions of information symmetry, the agent decides the level of effort to expend. When there is information asymmetry the agent must decide not only what level of effort to expend but also whether to use the private information that is available to him for personal gain. Managers possess private information about the firm and its current and prospective earnings streams that current and potential shareholders do not have (information asymmetry exists between managers and shareholders) which may allow them to manage earnings. Analytical models have demonstrated that the existence of information asymmetry between firm management and shareholders is a necessary condition for the practice of earnings management (Trueman and Titman, 1988). Information asymmetry affects the magnitude of earnings management practiced by a firm's managers. When information asymmetry is high, stakeholders do not have the necessary information to see through the managed earnings. When shareholders have insufficient resources, incentives, or access to relevant information to monitor the manager's actions, earnings management can also occur (Warfield et al., 1995).

2.2 Conceptual Framework

2.2.1 Discretionary Accruals Management

Accruals-based earnings management occurs when managers intervene in the financial reporting process by exercising discretion and judgment to change reported earnings without any cash flow consequences. The impact of discretionary accruals on the information content of earnings is subject to debate. These manipulations could enhance the value-relevance of reported earnings by communicating a manager’s private information regarding future profitability (see, for example, Watts and Zimmerman, 1986). The flexibility inherent in GAAP may result in opportunistic behavior that distorts reported earnings (see, for example, Healy and Palepu, 1993).

To date, empirical research on managerial discretion and earnings informativeness has been indirect and mixed, and the information effect of discretionary accruals, in particular, is relatively unexplored (Subramanyam, 1996). Guy et al. (1996) and Subramanyam (1996) were among the first to investigate the value-relevance of discretionary accruals. Guay et al. (1996) used market-based tests to investigate whether return-earnings component regression coefficients are consistent with their research hypotheses firm performance, opportunism, noise. Using the modified Jones model, Total Accruals (TA) can be calculated thus:

\[ TA_t = \Delta CA_t - \Delta Cash_t - \Delta CL_t + \Delta DCL_t - DEP_t \]

Where:
- \( \Delta CA_t \) = Change in current assets
- \( \Delta Cash_t \) = Change in cash and cash equivalents
- \( \Delta CL_t \) = Change in current liabilities
- \( \Delta DCL_t \) = Change in debt included in current liabilities
- \( DEP_t \) = Depreciation and amortization expense

From the Total Accrual (TA) as shown above, the non-discretionary accrual is calculated thus:

\[ NDA_t = \alpha_1 (1/A_{t-1}) + \alpha_2 [(\Delta REV_t - \Delta REC_t)/A_{t-1}] + \alpha_3 (PPE_t/A_{t-1}) \]

Where:
- \( \Delta REC_t \) = Net receivables in year t less net receivables
- \( \Delta REV_t \) = Revenues in year t less revenues

Discretionary accruals are then derived as follows.

\[ DA_t = TA_t - NDA_t \]

2.2.2 Equity Incentives

Equity-based compensation and incentives are provided essentially by granting executives stock options and shares. Although the value of such incentives tied to the share price, these equity instruments may differ in several important respects, including the right to receive dividends, the presence of incentives to take risks and accounting treatment. For the study, equity incentives include Long-Term Incentives (Executive Stock Holding), Short Term Incentives (Stock Options and Bonuses) and Fixed Salaries. Below we define these measures operationally.
2.2.3 Executive Stockholdings

Long-term equity compensation packages for executives come mostly in the equity stocks or its derivative. Equity compensation provides a strong incentive because it is based on the relationship between the value of the award and the performance of a company's stock price. As the value of the company increases, the value of the equity increases, providing an incentive for the executive to strive to increase the company's success and boost its market value. Long-term compensation is an incentive payment made, usually in other than cash, for an executive’s efforts for longer than one year. Executive stock holdings will be derived based on the following ratio as proposed by Bergstresser and Philippon (2006) and de Vos and Wang (2010):

\[
\text{EXSH}_{it} = \frac{\text{EXSH}_{it}}{\left(\text{EXSH}_{it} + \text{BONU}_{it} + \text{FSAL}_{it}\right)}
\]

Where:
- \( \text{EXSH}_{it} \) = Executive Stock Holdings of the CEO of firm \( i \) in year \( t \)
- \( \text{BONU}_{it} \) = Bonus-incentives of the CEO of firm \( i \) in year \( t \)
- \( \text{FSAL}_{it} \) = Fixed Salaries of the CEO of firm \( i \) in year \( t \)

2.2.4 Bonuses

Investopedia (2016) defined bonus as an additional compensation given to an employee above his/her normal wage. A bonus can be used as a reward for achieving specific goals set by the company, or for dedication to the company. Heathfield (2016) bonus pay is compensation over and above the amount of pay specified as a base salary or hourly rate of pay. The base amount of compensation is specified in the employee offer letter, in the employee personnel file, or a contract. Employers can distribute bonuses pay randomly as the company can afford to pay a bonus, or the amount of the bonus pay can be specified by contract.

A bonus is a payment that is backward-looking and usually discretionary or at least not expected from the employee(s). A decision is made to pay it to one, a group or all employees, based on criteria decided by management to reward past achievements, such as reaching a specific profit or some important milestones for the organization, or in a discretionary manner but defined an incentive as a forward-looking plan. Payment is tied to the achievement of specific objectives that have been predetermined and communicated to the employees that are on the plan. The purpose of the incentive scheme is to influence behavior to reach the objectives by providing an incentive to work towards the goals (Bardot, 2014). Executive bonuses are derived based on the following ratio as proposed by Bergstresser and Philippon (2006) and de Vos and Wang (2010):

\[
\text{BONU}_{it} = \frac{\text{BONU}_{it}}{\left(\text{EXSH}_{it} + \text{BONU}_{it} + \text{FSAL}_{it}\right)}
\]

Where:
- \( \text{EXSH}_{it} \) = Executive Stock Holdings of the CEO of firm \( i \) in year \( t \)
- \( \text{BONU}_{it} \) = Bonus-incentives of the CEO of firm \( i \) in year \( t \)
- \( \text{FSAL}_{it} \) = Fixed Salaries of the CEO of firm \( i \) in year \( t \)

2.2.5 Fixed Salaries

Salary is the fixed amount of money or compensation paid to an employee in return for work performed for the employer. Salary is normally paid at fixed intervals, usually monthly. Salary is typically determined by comparing market pay rates for people performing similar work/role in similar industries in the same geographical area. Salary is also determined by leveling the pay rates and salary ranges established by an individual employer. Salary is also affected by the number of people available to perform a specific job in the employer's employment locale. Thus, the salary will be affected by market forces in an open economy. Although fixed salaries do not have much relation to management performance, most incentives are based on a fixed salary. Fixed salaries of managers will be derived based on the following ratio as proposed by Bergstresser and Philippon (2006) and de Vos and Wang (2010):
Where:

\[ \text{FSAL}_{it} = \frac{\text{FSAL}_{it}}{\left( \text{EXSH}_{it} + \text{BONU}_{it} + \text{FSAL}_{it} \right)} \]

2.3 Empirical Review

Kim et al. (2018) studied CEO and outside director equity compensation: Substitutes or complements for management earnings forecasts. The study was aimed at examining how chief executive officers’ equity compensation and that given to the outside directors affect management earnings forecasts and to also ascertain the relationship between these officers as concerns their compensation. The researchers investigated by using data for CEO and director compensation and management earnings forecasts from 2006 to 2011. The results of their findings showed that equity compensation has a positive relationship with various measures of disclosure quality including management forecast likelihood, management forecast frequency, and management forecast accuracy and also the incentive mechanism involving equity compensation of chief executive officers and the monitoring mechanism related with equity compensation of directors act as proxies for each other in adding to the frequency of management forecasts and management update.

Yan-Xin (2018) studied Executive Compensation and Real Earnings Management: Perspective of Managerial Power. They collected their sample from China’s Shanghai and Shenzhen stock markets for the period 2011-2015; these samples are A-share listed companies and used multiple regression models to test the relationship between executive compensation and real earnings management. The results show that there is a significant negative correlation between monetary compensation and real earnings management; while the equity incentive for executives is positively correlated with the real earnings management, generally shows the opportunistic tendencies of executives; after introducing the variable of managerial power, the management power will weaken the negative correlation between monetary compensation and real earnings management, but it will not change the positive correlation between equity incentive and real earnings management.

Ines (2017) examined the effect of discretionary accruals and governance mechanisms in the occurrence of financial statement fraud. The sample consists of 250 annual reports spanning from 2006 to 2010 for listed French companies, which 45 detected fraudulent companies by the Financial Market Authority (AMF). Their findings revealed that discretionary accruals have a positive effect on corporate fraud when distinguishing between positive discretionary accruals (aggressive accounting policy) and negative discretionary accruals (conservative accounting policy); they provide evidence that aggressive accounting manipulation increases the likelihood of financial statement fraud. By contrast, conservative accounting policy is negatively associated with corporate fraud. Additionally, the outside director and ownership concentration are the most significant variables of governance to explain corporate fraud.

Alexander (2017) analyzed the effect of growth, leverage, fixed asset turnover, profitability, firm size, firm age, industry, audit quality, and auditor independence toward earnings management. The population of this research was made up of various sectors of non-financial companies that were listed on the Indonesian Stock Exchange (IDX) between 2013 and 2015. The research used three recent years of data and tested variables that have not been used by prior research. The sample was chosen using a purposive sampling method. The hypothesis was tested using multiple regressions with an SPSS package to investigate the influence of each independent variable on earnings management. The research results showed that return on assets influences earnings management and growth, leverage, fixed asset turnover, profitability, firm size, firm age, industry, audit quality, and auditor independence do not influence earnings management. The study opined that the manager in a company will engage in earnings management to receive a bonus from investors because they have received a higher profit in different patterns in the pre- and post-crisis periods. These results suggest that incentive-based contracts were not effective compensation tools in the aftermath of the crisis.

Debnath (2017) attempted to analyze the nature and extent of earnings management practices and also to assess the impact of the firm’s growth and performance on earnings management through discretionary accruals estimation in India. The study uses a cross-sectional modified Jones model to estimate discretionary
accruals, a proxy for earnings management. The researcher used a sample of 756 firm-year observations from the non-financial corporate sector from 2007 to 2015, using a fixed-effect model. The findings of the study confirmed that there is an existence of earnings management practices across the Indian non-financial firms under study, which followed a mixed trend. The findings further showed that the growth of the firm is positively associated with discretionary accruals while performance is negatively correlated. Nonetheless, among the other control variables viz; the firm's size and age were also found statistically significant influencing variables.

Zhong (2016) in studying equities Incentive, Informativeness of Stock Price and Earnings Management: Based on the Chinese A-Share Listed Companies, used a sample of 893 quoted Chinese companies from 2010 to 2014. The investigation revealed that a high level of equities incentive has a propensity to demean the level of informativeness of stock price. He found out also that earnings management appeared not to be a valuable go-between variable. The researcher concluded that the earnings management emanating from equities incentive was not as much of being capable of affecting the informativeness of stock price in China.

Oyerogba et al. (2016) studied the impact of executive compensation on firms’ profitability in listed companies in Nigeria using a period of ten years ranging from 2004 to 2013. Specifically, the study investigated the impact of directors’ cash incentives, non-cash incentives and bonus issue of share on earnings per share of the selected companies. The study relied on the secondary data extracted from the audited financial statement of a sample of 70 companies purposefully selected from the 198 listed companies in Nigeria. Both descriptive and inferential statistics were carried out. The results revealed that a significant positive relationship exists between the directors’ cash incentives, bonus issue of share and earnings per share. The relationship between non-cash incentive and earnings per share was insignificant. They recommended to the management that weight should be assigned to the variables in that order and that policymakers also need to provide adequate regulation on the determination of remuneration of the directors of listed companies in Nigeria.

Umobong (2015) investigated the Financial Accounting Methods and Executive compensation: A comparative study of pre and post-IFRS adoption by manufacturing companies in Nigeria. The paper which examined the relationship between financial accounting methods and executive compensation in pre and the post-IFRS era of manufacturing firms in Nigeria for 7 years using financial accounting variables such as discretional receivable accruals, discretional inventory accruals, and discretional depreciation accruals were used to proxy earnings management and regressed against executive compensation. The findings showed that discretionary accounts receivable accruals and discretionary inventory accruals have no statistically significant relationship with executive compensation of firms in the manufacturing sector of Nigeria in both pre and post IFRS periods. While discretionary depreciation had a significant relationship with the remuneration of executive directors implying earnings manipulation and in sync with agency theory. The researcher finds a mixed outcome for the study and advocated for further research in that direction.

Armstrong et al. (2013) researched the relation between equity incentives and misreporting: The role of risk-taking incentives. The paper proposed that executives whose wealth were more sensitive to changes in the firm's equity prices had greater incentive to manage/misreport earnings showed that show that considering the incentive effects of portfolio substantially changes the understanding of prior results from the literature. Using both regression and matching designs, and measuring misreporting using discretionary accruals, restatements, and enforcement actions, they find evidence of a positive relationship between misreporting and incentives provided by the firm. In conclusion, their findings point to the fact that equity portfolios provide managers with incentives to misreport when they make managers less averse to equity risk.

Damlcer (2012) looked at equity incentives and earnings management. The study was aimed at examining the relationship between equity incentives and earnings management in the United States of America. The study sample was made up of companies quoted in the United States that relates to the S&P 500 index from 1999 to 2009. Findings suggest that there is a significant relationship between Discretionary Accruals (DA) using the Kothari accrual model and equity incentives in a pre-Sarbanes Oxley sample. It implies that the relationship for CFO equity incentives is stronger than that of CEO equity incentives. Again the study presented a significant positive relationship between earnings management and total equity incentives and there is also a significant positive relationship found in option-based incentives and stock-based incentives respectively.
Finally, it was discovered that there changes before and following the foremost accounting scandals and the enactment of the Sarbanes Oxley Act in the relationship between earnings management and equity incentives.

3.0 MATERIALS AND METHODS
The study employed the ex-post factor research design which entails the utilization of historical/past data to forecast future trends employing econometric or analytical techniques. This form of research design is reliable as it provides objective estimates of study variable relationships free from subjective errors. Thus, the Ex-Post Facto Design was considered to be the right research design for the study. The population of the study consists of all the industrial goods companies quoted on the Nigeria Stock Exchange. The purpose of this study was to examine the relationship between equity incentives, executive compensation, and discretionary accruals management in quoted Nigerian firms. The estimated regression models, results and techniques as formulated in chapter three of the thesis is presented in this stage. The short and long-run regression results of the models such as Granger causality test was used to examine the causal relationship running from the independent variable to dependent variable and from dependent to independent variables, cointegration test was formulated to determine the presence of long-run relationship, and the unit root test was formulated to test the presence of spurious results. The Ordinary Least Square (OLS) estimates for the models and the discussion of hypotheses and findings were also presented.

3.1 Model Specification

\[ DSAC_{it} = f(EXSH_{it}, BONUS_{it}, FSAL_{it}) \]

Converting the above mathematical form to econometric form by the application of the constant term, coefficient and error term, the above models are represented as:

\[ DSAC_{it} = \alpha_0 + \alpha_1 EXSH_{it} + \alpha_2 BONUS_{it} + \alpha_3 FSAL_{it} + \mu_{it} \]

Pooled regression specification

\[ DSAC = \alpha_0 + \alpha_1 EXSH_i + \alpha_2 BONUS_{it} + \alpha_3 FSAL_{it} + \epsilon_{1i} \]

Fixed effect model specification

\[ DSAC_{it} = \alpha_0 + \alpha_1 EXSH_{it} + \alpha_2 BONUS_{it} + \alpha_3 FSAL_{it} + \sum_{i}^{n} \beta_i + \epsilon_{it} \]

Random effect model specification

\[ DSAC = \alpha_0 + EXSH_{it} + \alpha_2 BONUS_{it} + \alpha_3 FSAL_{it} + \epsilon_{it} \mu_{it} + \epsilon_{it} \]

Where

- DSAC = Discretionary accruals management
- EXSH = Executive stockholdings
- BONUS = Bonuses
- FSAL = Fixed Salaries
- \( \mu_{it} \) = Error Term
4.0 ANALYSIS AND DISCUSSION OF FINDINGS

Table 4.1: Extract of Descriptive Statistics of the Variables under Consideration

<table>
<thead>
<tr>
<th>Variables</th>
<th>DSAC</th>
<th>EXSH</th>
<th>BONU</th>
<th>FSAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>128.1486</td>
<td>37.14653</td>
<td>39.64630</td>
<td>6.649156</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>639.2306</td>
<td>37.64472</td>
<td>38.29722</td>
<td>12.39917</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.000000</td>
<td>0.000000</td>
<td>0.000000</td>
<td>0.000000</td>
</tr>
<tr>
<td>Maximum</td>
<td>7974.0000</td>
<td>99.80000</td>
<td>99.90000</td>
<td>73.90000</td>
</tr>
<tr>
<td>Skewness</td>
<td>12.12581</td>
<td>0.447849</td>
<td>0.479373</td>
<td>2.624551</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>149.3051</td>
<td>1.597471</td>
<td>1.611700</td>
<td>10.70447</td>
</tr>
</tbody>
</table>

Source: Extracted from E-view 10, 2019

The mean values of discretionary accruals management, executive stockholdings, bonuses, and fixed salaries are 128.146, 37.14653, 39.64630, and 6.649156 respectively, the minimum or least value in these series is 0.000000 while the highest value is 7974.000. The deviation from the mean is 639.2306. The skewness values are 12.12581, 0.447849, 0.479373, and 2.624551 respectively. We know that skewness measures the degree of asymmetry of the series. From the series it is seen that discretionary accruals management has a positive skewness meaning that the variable has a long right tail, and possesses the highest value above the sample average. The discretionary accruals management is leptokurtic because it has a positive kurtosis (peaked-curve), the highest value in the series. FSAL is leptokurtic; EXSH and BONU are all platykurtic (flattened-curve), lower values below the sample average.

Table 4.2: Extract of Panel Correlation Matrix Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>DSAC</th>
<th>EXSH</th>
<th>BONU</th>
<th>FSAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSAC</td>
<td>1.000000</td>
<td>-0.057202</td>
<td>0.048791</td>
<td>0.020341</td>
</tr>
<tr>
<td>EXSH</td>
<td>-0.057202</td>
<td>1.000000</td>
<td>-0.071057</td>
<td>-0.023041</td>
</tr>
<tr>
<td>BONU</td>
<td>0.048791</td>
<td>-0.071057</td>
<td>1.000000</td>
<td>-0.164219</td>
</tr>
<tr>
<td>FSAL</td>
<td>0.020341</td>
<td>-0.023041</td>
<td>-0.164219</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Source: Extracted from E-view 10, 2019

The results demonstrated that EXSH, BONU, and FSAL have a negative relationship with DSAC with coefficients of -0.057202, -0.07105 and -0.023041. This means that a unit increase in EXSH, BONU, and FSAL will result in to a decrease in discretionary accruals management by 5.7 percent, 7.1 percent, and 2.3 percent respectively and definitely will cause upward management of earnings.
Table 4.3: Extract of Panel Unit Root Test at First Difference 1(1)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Test Methods</th>
<th>Coefficient</th>
<th>Prob.</th>
<th>Cross-section</th>
<th>Obs</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSAC</td>
<td>Levin, Lin &amp; Chu t*</td>
<td>-3.72222</td>
<td>0.0001</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>Im, Pesaran and Shin W-stat</td>
<td>-3.23990</td>
<td>0.0006</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>ADF - Fisher Chi-square</td>
<td>60.7243</td>
<td>0.0003</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>PP - Fisher Chi-square</td>
<td>153.412</td>
<td>0.0000</td>
<td>14</td>
<td>126</td>
</tr>
<tr>
<td>EXSH</td>
<td>Levin, Lin &amp; Chu t*</td>
<td>-11.6695</td>
<td>0.0000</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>ADF - Fisher Chi-square</td>
<td>131.751</td>
<td>0.0000</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>PP - Fisher Chi-square</td>
<td>206.693</td>
<td>0.0000</td>
<td>14</td>
<td>126</td>
</tr>
<tr>
<td>BONU</td>
<td>Levin, Lin &amp; Chu t*</td>
<td>-17.0644</td>
<td>0.0000</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>ADF - Fisher Chi-square</td>
<td>114.359</td>
<td>0.0000</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>PP - Fisher Chi-square</td>
<td>189.744</td>
<td>0.0000</td>
<td>14</td>
<td>126</td>
</tr>
<tr>
<td>FSAL</td>
<td>Levin, Lin &amp; Chu t*</td>
<td>-19.7916</td>
<td>0.0000</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>ADF - Fisher Chi-square</td>
<td>102.444</td>
<td>0.0000</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>PP - Fisher Chi-square</td>
<td>211.472</td>
<td>0.0000</td>
<td>14</td>
<td>126</td>
</tr>
</tbody>
</table>

Source: Extracted from E-view 10, 2019

A unit root test is a statistical test for the proposition that in an autoregressive statistical model of a time series, the autoregressive parameter is one. The null hypothesis is rejected on the ground that the absolute value of the calculated ADF test statistic is larger than the absolute value of the Mackinnon critical value. This study adopted four test statistics to test the stationarity of the variables within the study periods. From the table above, all the variables are stationary at first difference and the probability coefficient of the variables is less than the critical value of 0.05 at a 5 percent level of significance. This implies that the null hypotheses are rejected.

4.4 Equity Incentives, Executive Compensation, and Discretionary Accruals

Table 4.4.1: Test Between the Fixed and the Random Effect

<table>
<thead>
<tr>
<th>Effects Test</th>
<th>Statistic</th>
<th>d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redundant Fixed Effects Tests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross-section F</td>
<td>1.046106</td>
<td>(13,137)</td>
<td>0.4116</td>
</tr>
<tr>
<td>Cross-section Chi-square</td>
<td>14.574904</td>
<td>13</td>
<td>0.3346</td>
</tr>
<tr>
<td>Correlated Random Effects - Hausman Test</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Test Summary</td>
<td>Chi-Sq. Statistic</td>
<td>Chi-Sq. d.f.</td>
<td>Prob.</td>
</tr>
<tr>
<td>Cross-section random</td>
<td>0.394137</td>
<td>3</td>
<td>0.9415</td>
</tr>
</tbody>
</table>

Source: Extracted from E-View 10, 2019

In testing the validity of the models, the fixed effects on the cross-section Redundant Fixed Effect-Likelihood Ratio, the p-value is 0.0000 indicating that the effects are statistically significant. Select the random effect and perform the Correlated Random Effects- Hausman test, testing the random effects model against the fixed effects model. The null hypothesis, in that case, is that both tests are consistent estimators and the random-effects model is efficient. Under the alternative hypothesis, only the fixed effect is consistent. Since the p-value is 0.9415, the null hypothesis is not rejected and, therefore, the random-effects model is to be preferred.
Table 4.4.2: Multiple Regression Result of Pooled Effect Model at OLS for Model 1

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t. Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>320.5653</td>
<td>125.2833</td>
<td>2.558723</td>
<td>0.0115</td>
</tr>
<tr>
<td>EXSH</td>
<td>-2.208766</td>
<td>1.603054</td>
<td>-1.377849</td>
<td>0.1703</td>
</tr>
<tr>
<td>BONU</td>
<td>-2.416535</td>
<td>1.596541</td>
<td>-1.513607</td>
<td>0.1322</td>
</tr>
<tr>
<td>FSAL</td>
<td>-2.190067</td>
<td>4.234892</td>
<td>-0.517148</td>
<td>0.6058</td>
</tr>
</tbody>
</table>

$R^2 = 0.018707, \quad \text{Adj} \quad R^2 = 0.000919, \quad \text{DW} = 2.227616$

Source: Extracted from E-View 10, 2019

Table 4.4.3: Multiple Regression Result of Fixed Effect Model at OLS for Model 1

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t. Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>333.4680</td>
<td>181.1755</td>
<td>1.840580</td>
<td>0.0678</td>
</tr>
<tr>
<td>EXSH</td>
<td>-0.814480</td>
<td>4.330939</td>
<td>-0.188061</td>
<td>0.8511</td>
</tr>
<tr>
<td>BONU</td>
<td>-3.737024</td>
<td>2.807680</td>
<td>-1.331001</td>
<td>0.1854</td>
</tr>
<tr>
<td>FSAL</td>
<td>-4.046398</td>
<td>6.742128</td>
<td>-0.600166</td>
<td>0.5494</td>
</tr>
</tbody>
</table>

$R^2 = 0.107319, \quad \text{Adj} \quad R^2 = -0.003065; \quad \text{DW} = 2.448592$

Source: Extracted from E-View 10, 2019

Table 4.4.4: Multiple Regression Result of Random Effect Model at OLS for Model 1

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t. Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>325.8368</td>
<td>134.9212</td>
<td>2.415015</td>
<td>0.0169</td>
</tr>
<tr>
<td>EXSH</td>
<td>-2.218757</td>
<td>1.746108</td>
<td>-1.270687</td>
<td>0.2058</td>
</tr>
<tr>
<td>BONU</td>
<td>-2.501600</td>
<td>1.700121</td>
<td>-1.471425</td>
<td>0.1433</td>
</tr>
<tr>
<td>FSAL</td>
<td>-2.419852</td>
<td>4.572493</td>
<td>-0.529219</td>
<td>0.5974</td>
</tr>
</tbody>
</table>

$R^2 = 0.017896, \quad \text{Adj} \quad R^2 = 0.001746; \quad \text{DW} = 2.276400$

Source: Extracted from E-View 10, 2019

From the Hausman test result as captured in the appendix in the full work and also in table 4.4.4 above, the probability value is 0.9415; this is far greater than 0.05 significant level and we do not reject the assumption that random effect model is more appropriate than fixed-effect model in analyzing effect of EXSH, BONU, and FSAL on DSAC. Therefore, Random Effect Model is employed in analyzing the hypotheses that; there is no significant relationship between executive stockholdings and discretionary accruals management in quoted industrial goods firms in Nigeria, there is no significant relationship between bonuses and discretionary accruals management in quoted industrial goods firms in Nigeria, and there is no significant relationship between fixed salaries and discretionary accruals management in quoted industrial goods firms in Nigeria. The random effect model shows an intercept of 325.8368. This means that the average level of discretionary accruals is 325.8368 when EXSH, BONU, and FSAL are zero. The $\beta$ coefficient of the variables shows that executive stockholdings, bonuses, and fixed salaries have a negative and insignificant effect on discretionary...
accruals management in selected quoted firms on the dependent variable. The T-Statistics and the probability values justify that the variables are statistically not significant in explaining variation on discretionary accruals management in quoted industrial goods firms in Nigeria. Since the probability values of EXSH, BONU, and FSAL are greater than 0.05, we do not reject the null hypothesis. The negative coefficients of the variables imply that an increase in EXSH, BONU, and FSAL result in a decrease in discretionary accruals management by 2.218757, 2.501600, and 2.419852 respectively. The R-squared otherwise called the coefficient of determination is 1.78 percent meaning that the independent variables only explain 1.78 percent variation in discretionary accruals management.

Table 4.4.5: Fixed and Random Effect Comparison

<table>
<thead>
<tr>
<th>Variable</th>
<th>Fixed</th>
<th>Random</th>
<th>Var(Diff.)</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXSH</td>
<td>-0.814480</td>
<td>-2.218757</td>
<td>15.708136</td>
<td>0.7231</td>
</tr>
<tr>
<td>BONU</td>
<td>-3.737024</td>
<td>-2.501600</td>
<td>4.992654</td>
<td>0.5803</td>
</tr>
<tr>
<td>FSAL</td>
<td>-4.046398</td>
<td>-2.419852</td>
<td>24.548598</td>
<td>0.7427</td>
</tr>
</tbody>
</table>

Source: Extracted from E-View 10, 2019

The table above reveals the variance difference among the variables; the variables are all statistically not significant in the three models. This implies that there is a statistical difference between the fixed and the random effect for the independent variables as formulated in the regression model.

Table 4.4.6 Pedroni Residual Cointegration Test for Model 1

Series: DSAC EXSH BONU FSAL

Alternative hypothesis: common AR coefs. (within-dimension)

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Prob.</th>
<th>Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panel v-Statistic</td>
<td>-3.727051</td>
<td>0.9999</td>
<td>-2.126132</td>
</tr>
<tr>
<td>Panel rho-Statistic</td>
<td>1.732429</td>
<td>0.9584</td>
<td>1.735678</td>
</tr>
<tr>
<td>Panel PP-Statistic</td>
<td>-8.283522</td>
<td>0.0000</td>
<td>-2.678690</td>
</tr>
<tr>
<td>Panel ADF-Statistic</td>
<td>-4.824416</td>
<td>0.0000</td>
<td>-2.973511</td>
</tr>
</tbody>
</table>

Alternative hypothesis: individual AR coefs. (between-dimension)

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group rho-Statistic</td>
<td>3.685593</td>
</tr>
<tr>
<td>Group PP-Statistic</td>
<td>-2.780525</td>
</tr>
<tr>
<td>Group ADF-Statistic</td>
<td>-3.662437</td>
</tr>
</tbody>
</table>

Source: Extracted from E-View 10, 2019

Cointegration is a statistical property of time series variables. In a situation where two or more series are individually integrated (in the time series sense) but some linear combination of them has a lower order of integration, then the series is said to be cointegrated. For estimation of the cointegrating relationship to be undertaken, it requires that all the time series variables in the model be integrated of order one (1). The next step after recognizing the order of integration of the variables as I(1) or above is to test whether the variables in question can co-integrate or not. The three main methods for testing for cointegration are The Engle-Granger two-step method (null: no cointegration, so residual is a random walk), The Johansen procedure, Phillips-Ouliaris Cointegration Test available with R (null: no cointegration). The results of the cointegration test proved that the variables are cointegrated as the probability coefficient of the variables are less than 0.05, we do not reject the alternate hypotheses that there is the presence of a long-run relationship between the dependent and the independent variables.
Table 4.4.7 Pairwise Granger Causality Test for Model 1

<table>
<thead>
<tr>
<th>Null Hypothesis</th>
<th>Obs</th>
<th>F-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXSH does not Granger Cause DSAC</td>
<td>126</td>
<td>0.55908</td>
<td>0.5732</td>
</tr>
<tr>
<td>DSAC does not Granger Cause EXSH</td>
<td></td>
<td>0.18818</td>
<td>0.8287</td>
</tr>
<tr>
<td>BONU does not Granger Cause DSAC</td>
<td>126</td>
<td>0.42874</td>
<td>0.6523</td>
</tr>
<tr>
<td>DSAC does not Granger Cause BONU</td>
<td></td>
<td>0.01868</td>
<td>0.9815</td>
</tr>
<tr>
<td>FSAL does not Granger Cause DSAC</td>
<td>126</td>
<td>0.05048</td>
<td>0.9508</td>
</tr>
<tr>
<td>DSAC does not Granger Cause FSAL</td>
<td></td>
<td>0.01215</td>
<td>0.9879</td>
</tr>
<tr>
<td>BONU does not Granger Cause EXSH</td>
<td>126</td>
<td>7.92953</td>
<td>0.0006</td>
</tr>
<tr>
<td>EXSH does not Granger Cause BONU</td>
<td></td>
<td>2.48480</td>
<td>0.0876</td>
</tr>
<tr>
<td>FSAL does not Granger Cause EXSH</td>
<td>126</td>
<td>3.19383</td>
<td>0.0445</td>
</tr>
<tr>
<td>EXSH does not Granger Cause FSAL</td>
<td></td>
<td>2.49153</td>
<td>0.0870</td>
</tr>
<tr>
<td>FSAL does not Granger Cause BONU</td>
<td>126</td>
<td>3.02850</td>
<td>0.0521</td>
</tr>
<tr>
<td>BONU does not Granger Cause FSAL</td>
<td></td>
<td>0.72723</td>
<td>0.4853</td>
</tr>
</tbody>
</table>

Source: Extracted from E-View 10, 2019

The Granger tests test for the direction of the cause between two variables. A variable is said to Granger cause the other if it helps to make a more accurate prediction of the other variable than if only the past data of the latter was used as a predictor. Granger causality between two variables cannot be interpreted as a real causal relationship but merely shows that one variable can help to predict the other one better. This means that variation on the variables cannot predict the other. The result shows that there is no causal relationship between the dependent variable and the independent variables. This implies that the null hypothesis is not rejected at a 5 percent level of significance.

5.0 DISCUSSION OF FINDINGS

5.1 Executive Stockholdings and Discretionary Accruals Management

The objective of the first research question and hypothesis was to examine the relationship between executive stockholdings and discretionary accruals management in quoted industrial goods firms in Nigeria. The regression coefficient found that executive stockholdings have a negative and insignificant relationship with discretionary accruals management in quoted industrial goods firms. The beta coefficient of -2.218757 as a parameter for executive stockholdings proved that a unit increase on the variable will lead to a 2.2 percent decrease in discretionary accruals management in quoted industrial goods firms in Nigeria. However, the hypothesis formulated was tested using the t-statistics and the probability coefficient from the random effect model validated by the Hausman test. The t-statistics of -1.270687 is greater than the critical value of ± 1.080 at 9 degrees of freedom and the probability coefficient of 0.2058 is greater than the critical value of 0.05 at 5 percent level of significance which implies that there is no significant relationship between executive stockholding and discretionary accruals management in quoted industrial goods firms in Nigeria within the periods covered in this study. The insignificant effect of executive stockholdings on discretionary accruals management in quoted industrial good firms in Nigeria implies that an increase or decrease in the variable will not have any meaningful effect on the dependent variable. It furthermore, suggests that there is no cordial
relationship between the managers (agents) and shareholders (principals) which could be a result of conflicts of interest. The negative effect of executive stockholdings on the discretionary accruals management in quoted industrial goods firms in Nigeria is contrary to the expectation of the results as we expected a positive relationship between the variables. The negative effect of executive stockholdings on discretionary accruals management can be traced to poor corporate governance of the executives; this confirms the principal agency theory formulated by (Jensen and Meckling, 1976). The negative effect of executive stockholdings on discretionary accruals management is contrary to the empirical findings of Ines (2017) that discretionary accruals have a positive effect on corporate fraud when distinguishing between positive discretionary accruals (aggressive accounting policy) and negative discretionary accruals conservative accounting policy, the findings of Kim et al. (2018) that equity compensation has a positive relationship with various measures of disclosure quality including management forecast likelihood, management forecast frequency, and management forecast accuracy and also the incentive mechanism involving equity compensation of chief executive officers and the findings of Debnath (2017) that there is an existence of earnings management practices across the Indian non-financial firms under study, which followed a mixed trend and that the growth of the firm is positively associated with discretionary accruals while performance is negatively correlated. Again the findings of this research study do not agree with the empirical work of Damler (2012) who found a significant positive relationship between earnings management and total equity incentives and also a significant relationship between discretionary accruals (DA) using Kothari accrual model and equity incentives in the pre-Sarbanes Oxley sample. In the same vein, the findings of the present research study do not concur with the empirical work of Armstrong et al. (2013) who found evidence of a positive relation between misreporting and incentives provided by the firm. However, the findings of this research study agree with the empirical work of Umobong (2015) who found that discretionary account receivables accruals and discretionary inventory accrual do not have no statistically significant relationship with executive compensation of firms in the manufacturing sector of Nigeria in both pre and post-IFRS periods.

5.2. Bonuses and Discretionary Accruals Management
The study found in research question four and hypothesis indicated that there is a negative and insignificant relationship between bonuses and discretionary accruals management in quoted industrial goods firms in Nigeria. The beta coefficient of 2.501600 as a parameter for bonuses proved evidence that a unit increase on the variable will result in a 2.5 percent decrease in discretionary accruals management in quoted industrial goods firms in Nigeria. The t-statistics of -1.471425 is greater than the critical value of ± 1.080 at 9 degrees of freedom and the probability coefficient of 0.1433 is greater than the critical value of 0.05 at 5 percent level of significance which implies that there is insignificant relationship between bonuses and discretionary accruals management in quoted industrial goods firms within the periods covered in this study. The insignificant effect of bonuses on discretionary accruals management in quoted industrial goods firms in Nigeria implies that an increase or decrease in the variable will have no meaningful effect on the dependent variable. The negative effect of bonuses on discretionary accruals management in quoted industrial goods firms in Nigeria is contrary to our a-priori expectations of the results as we expected a positive relationship between the variables. The negative effect of bonuses on discretionary accruals management is in line with the principal agency theory. The negative effect of the variable contradicts the findings of Alexander (2017) and Oyerogba et al. (2016) who found a significant positive relationship exists between the directors’ cash incentives, bonus issue of share and earnings per share but confirms the findings of the empirical works of Yan Xin (2018).

5.3 Fixed Salaries and Discretionary Accruals Management
The objective of the seventh research question and hypothesis was to examine the relationship between fixed salaries and discretionary accruals management in quoted industrial goods firms in Nigeria. The regression coefficient found that fixed salaries have a negative and insignificant relationship with discretionary accruals in quoted industrial goods firms in Nigeria. The beta coefficient of 2.419852 as a parameter for fixed salaries proved that a unit increase on the variable will lead to a 2.4 percent decrease in discretionary accruals in quoted industrial goods firms in Nigeria. However, the hypothesis formulated was tested using the t-statistics and the probability coefficient from the random effect model and validated by the Hausman test. The t-statistics of 4.572493 is greater than the critical value of ± 1.080 at 9 degrees of freedom and the probability
The coefficient of 0.5974 is greater than the critical value of 0.05 at 5 percent level of significance which implies that there is no significant relationship between fixed salaries and discretionary accruals management in quoted industrial goods firms in Nigeria within the periods covered in this study. The insignificant effect of fixed salaries on discretionary accruals management in quoted industrial goods firms in Nigeria implies that an increase or decrease in the variable will not have any meaningful effect on the dependent variable. The negative effect of fixed salaries on the discretionary accruals of the firms is contrary to the expectations of the results as we expected a positive relationship between the variables. The negative effect of fixed salaries on discretionary accruals management can be traced to poor corporate governance of the executives, poor management quality, the imperfection of the market and other external factors; this confirms the principal agency theory formulated by Jensen and Meckling (1976). The negative effect of fixed salaries on discretionary accruals management is contrary to the empirical findings of Zhong (2016) who concluded that earnings management emanating from equities incentive was not as much of being capable of affecting informativeness of stock price in China.

5.4 CONCLUSIONS

The present research study has empirically investigated equity incentives and executive compensation and how they affect discretionary accruals management in quoted Nigerian firms using cross-sectional data of 14 quoted industrial goods firms for 11 years. The criterion variable which is discretionary accruals management was determined by the modified Jones model, while the predictor variables were proxied by executive stockholdings, bonuses, and fixed salaries. Three hypotheses were postulated in this study. Consequently, based on the test of the hypotheses, the following conclusions are drawn:

1. That there is no significant relationship between executive stockholdings and discretionary accruals management in quoted industrial goods firms in Nigeria.
2. That there is no significant relationship between bonuses and discretionary accruals management in quoted industrial goods firms in Nigeria.
3. That there is no significant relationship between fixed salaries and discretionary accruals management in quoted industrial goods firms in Nigeria.

5.6 RECOMMENDATIONS

Based on the findings from this research study, the following recommendations are proffered:

1. Industrial goods firms should consider the establishment of policies for executive stockholdings. This will enhance management in planning and managing forts that affect executive stockholdings and earnings management.
2. Management of the quoted industrial goods firms should adopt good compensation structure, welfare, and incentive packages as these would positively motivate executives and consequently improve financial performance and earnings.
3. The policymakers need to provide adequate regulation on the determination of equity incentives of the directors of listed companies; this will reduce the negative effect of ownership concentration for directors and the overbearing influence of directors in annual general meetings.

REFERENCES


