Board Independence and Earnings Management of Healthcare Firms in Nigeria

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Abstract
This study was undertaken to examine the relationship between board independence and earnings management of listed healthcare firms in Nigeria. Using convenience sampling, a panel data from eleven (11) healthcare companies that are listed on the Nigerian Stock Exchange were collected from 2012 to 2019. Inferential analyses were done using ordinary least square and logit regression techniques based on 5% level of significance. Earnings management was operationalized with earnings restatement and discretionary accruals. On the final analysis, it was found that board independence was negatively and significantly related to both earnings restatement and discretionary accruals. Therefore, on the basis of the results obtained, the study came to the conclusion that is consistent with independent directors having strong incentives to curb earnings management tendencies. It is therefore recommended that listed healthcare companies should ensure adequate and reward remuneration package to attract and retain industry-experienced independent professionals to serve on their boards.

Keywords: Board independence, discretionary accruals, earnings restatement, earnings management.

Introduction
It is widely believed that reporting flexibility may provide managers with a channel through which they can opportunistically manage earnings which in turns may adversely affect the quality of reported earnings and their use in decision making process (Vie et al., 2003). Prior research suggests several explanations as to why corporate manager may tend to manipulate reported earnings. In order to achieve on or more of contractual and capital market objective such as increasing their compensation, avoiding debt covenants violation smoothing the reported earning to meeting or exceeding analyst forecasts.

Earnings management has become an issue that is attracting major attention from researchers, investors and even government which is a consequence of owners being distinct from managers of business. This separation has made it compulsory for manages (agent) to communicate their performance to the owners (principal). But several studies have shown that corporate managers under the subsisting framework often pursue their personal interests at the expense of shareholders. It has been alleged that managers often take advantage of the asymmetric nature of information resulting from the separation to engage in opportunistic earnings management which adversely affect the credibility and integrity of financial information.

Earnings management is an attempt by the managers of companies to manipulate the financial reporting process in order to achieve certain selfish interest. It occurs when managers use professional judgment in financial reporting and structuring transactions to alter financial reports to either mislead some stakeholders about the economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. Managers have the motivation to indulge in earnings management for selfish interests which are usually inconsistent with the interest of the shareholders and investors. (Olaoye & Adequmi, 2018: Guo & Ying, 2015).

Against the backdrop of mitigating the conflict of interest that follows the separation between corporate ownership and control and restraining the power of agent to exhibit opportunistic behavior in the management or an organizations earnings a number of scholars (Klein, 2002: Peasnell et al., 2000: Davidson et al., 2005: Lin & Hwang 2010) suggests independent adequate and effective board structure as the panacea.

Board independence is achieved when a majority of corporate board members have not been, and are not currently employed, by the company or its auditor and the board members' employer does not do a significant amount of business with the company. Put differently, board independence is achieved when the majority of the board is composed of independent directors (Klein, 2002; Beekes et al, 2004; Davidson, et al, 2005). An independent director (also sometimes known as an outside director) is a director (member) of a board of directors who does not have a material or pecuniary relationship with the company or related persons, except sitting fees. According to Kelton and Yang (2008), the capacity of the board to execute its monitoring role relies upon its independence from management and thus independent boards have a greater capacity to limit managerial opportunistic behavior and reduce managements' ability to withhold information. To this end, a negative relationship is expected between board independence and earnings management practices. This is because when viewed from the prism of agency theory, such a relationship is anchored on the hypothesis that effective monitoring of the board will bring about proper alignment between the interests of shareholders and managers.

Also, the CBN in 2014 revised the code of best practices for public companies which is primarily aimed at ensuring that the interest of all stakeholders are recognized and protected as much as possible. The Nigerian health sector occupies an important position in the Nigerian economy and contributes immensely to the development of the country but the financial failure in some listed healthcare firms in Nigeria (e.g. Reliance HMO, Smaart Health, Vision Plus Specialist Eye Clinic, Jspring Nutrition & Dietary Health Services, Mosak Distillenies Limited) that occurred irrespective of the publication of well audited financial statements called to question the integrity and credibility of such financial statements.

Although, substantial empirical research exists on the relationship between board independence and earnings management in Nigeria, the effect of board independence and earnings management has not received any known empirical attention in the healthcare sector of Nigeria.
Hence, this study seeks to investigate the relationship between beard independence and earnings management in the healthcare sector using data from healthcare firms listed on the Nigerian Stock Exchange.

LITERATURE REVIEW

Theoretical Foundation

There are several baseline theories for social and organizational research that underscore the current study. These includes but not limited to agency theory, stakeholders theory, stewardship theory and resource dependency theory. For the purpose of this study, the agency theory is adopted.

Agency Theory

Agency theory has its roots in economic theory exposited by Alchian and Demsetz (1972), and further developed by Jensen and Meckling (1976). The theory focuses on the consequences of separation of ownership and control (Bhimani, 2008). It highlights relationship between principals (e.g. shareholders) and agents (e.g. Management). The theory postulates that managers tend to pursue their selfish interests at the detriment of shareholders' interests, when shareholders (who are the owners or principals of the company) hire agents to perform work wherein the principals delegate the running of the business to agents (Clarke, 2004). Thus, agency problems can arise when one party (the 'principals') contracts with another party (the 'agents') to make decisions on behalf of the principals. Agency problems may occur as agents can hide information and manage firms in their own interest. According to Jensen and Meckling (1976), agency problem is concerned with the consumption of perquisites by managers and other types of empire building. (La Porta *et al*., 2000).Thus agency theory suggests that public company owners should always exercise cautious vigilance in delegating controlling authority to managers over the affairs of the company. This is why corporate governance is necessary to intricately align the interest of managers (i.e. the agents) to that of the shareholders (i.e. the principals).

In the agency theory shareholders expect the agents to act and make decisions in the principal's interest, but on the contrary, the agent may not necessarily make decisions in the best interest of the principals (Padilla 2000). They (agents) may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspiration of the principal and the agent's pursuits. Thus, conflict of interest (agency problem) may occur as agent can hide information and manage firms in their own interest. Richardson (1998) noted that managers (agents) have an access to private information about the firm and its earnings which might not be available to the shareholders (principals). This is known as information asymmetry which can display itself in form of financial reports published by a firm. When information asymmetry is high, shareholders are unable to verify whether the published information represents the actual economic condition of the firm or not. Another short-coming of the principal – agent relationship is the agency cost.

The relevance of agency theory to this study cannot be made more obvious than the scholarly submission of Daily *et al*. (2003) when they identify two major factors which influence the prominence of agency theory. Firstly according to Daily *et al* (2003), the theory is conceptual and simple one that reduces firm to two participants: managers and shareholders; and second, the theory suggests that employees or managers in firms can be self-interested. Roberts (2004) argues that the remedy to agency problems within corporate governance involve acceptance of certain agency costs as either incentives or sanctions to align both the executives' and shareholders' interests. In essence, agency theory highlights the significant role of board structure to facilitate compliance by curtailing executives' self-serving inclinations to compensate their risk through opportunistic means (Lubatkin, 2005).

Conceptual Review

Board Independence

Board independence is the complete and unconditional freedom of a corporate board from any bias, both in deed and appearance, to exercise its authority in discharging its statutory function without fear or favour. Put differently, it is the situation whereby the board is collectively seen and perceived to be carrying out its avowed duty without fear or favour. The notion of board independence in corporate governance fundamentally requires that the board of directors be independent of management and the company (Hermanson, 2003).

Who the board should comprise of is another very important tool for efficient governance. Prior studies have documented how board independence can reduce earning management (Jesen & Fama, 1983; Dechow & Dicheo, 2002; Peanell et al, 2000) because independent directors do not pursue self-interest such as executive compensation and the misappropriation of assets, pressure from shareholders to meet or beat expectations of firm performance and the need to maintain personal reputation to the public.

Earnings Management

Corporate earning is the net income that represents a company's bottom line which has been recognized as a particularly most significant item in financial statements as they designate or signify the extent to which a company has engaged in value-added activities (Lev, 1989). Earnings management has an important area of research as if is capable of undermining the value of accounting document that can pass relevant facts to investors in an organized financial market. According to Musa & Luka (2014), earnings management could come from freedom of choices provided by accounting principles. Accounting principles allow agents (managers) of the firm to select among various reporting procedures and make assumptions in view of the peculiarity of their business environment. Earnings signal the direction of resource allocation in capital markets as the theoretical value of a company's stock is the present value of its future earnings. Hence, increased earnings represent an increase in company value, while decreased earnings signal a decrease in the value of a company (Lev, 1989). Because of the connecting issues that run through earnings, firm's value and private interests of firm's stakeholders, managers often resort to using their discretions to determine the outcome of earnings. For the purpose of this study, earnings management was operationalized with two constructs which are discretionary accruals and earnings restatement.

Empirical Review

Board Independence and Earnings Management

Kapoor & Goel (2019) studied the role of independent directors diligence in restraining earnings management practices in the Indian context. Financial data were collected for eight years (2006-2013) from 305 listed companies with 1,830 firms' year observations. With a panel data for the regression model, the results suggest that the diligence of independent directors has a significant impact on earnings management. The findings support the agency theory and provide evidence of the role played by the board processes in restricting earnings management.

Alves S. (2014) examined whether board independence improves earnings quality in Portuguese listed companies. With a sample size of 33 non-financial companies from 2003 – 2010 and a total of 264 observation using ordinary least square (OLS) and two stage least square (2SLS) to analyze the data, the study found out that independent board members improve earnings quality by reducing earnings management. The result suggests that strengthening the independence of boards by appointing more independent board members is a positive step towards improving earnings quality.

Cheng et al (2015) carried out a study on how recent regulatory informed requiring majority board independence are effective in reducing earnings management. Using a sample size of 1,205 firms, the study analyzed their data with descriptive statistics using the Pearson's Product Moment Correlation. The results of the findings indicated that non-compliance firms with low information acquisition cost experience a significant reduction in earnings management compared with the other firms. The results hold that independent director's monitoring is more effective in a richer information environment.

Busirin et al (2015) studies the relationship between board independence and earnings manipulation in listed firms in Malaysia. The paper titled "how effective is board independence to the minatory of earnings manipulation" employed its data from 372 public listed companies in Malaysia from 2010 to 2013. Using Beneish profit model, the result indicates that higher number of independent directors will reduce the tendency of earnings manipulation.

Idris et al (2017) examines the moderating effect of family ownership over the relationship between board independence and earnings management. they had a total observation of 320 from 64 industrial firms on Amman Stock Exchange (ASE) for 2009 to 2013. Using regression model to analyze the data, the result documents that the relationship between board independence and earnings management becomes weak when there is an interaction with family ownership control. This result indicates that an increase in the percentage of independent directors to migrate earnings management is less likely to be influential in the case of family controlled firms.
Khali & Ozikan (2016) also investigated the relationship between board independence audit quality and earnings management in 125 Egyptian firms characterized by high ownership concentration and weak shareholder protection using 1,005 observations from non-financial firm over the period 2005 to 2012, the study found support for the notion that increasing the ratio of non-executive directors on the firm's board of directors or its audit committee may not be enough to adequately constrain earnings management.

Johan et al., (2008) examined the role of independent members on the board, competency and ownership in monitoring management particularly in providing more transparent and non-misleading performance information. The study analyzed annual reports of 224 firms listed on Bursa Malaysia Main Board for 2002 and 2003 financial year. Using the multiple regression analysis model. The result indicated that the minimum composition of one-third independent director as suggested by the code of corporation governance in Malaysia is not adequate to monitor the management from earnings management practices.

Yohan (2017) provides empirical evidence on the effect of outside director's quality on firm value and earnings quality of Korean listed firms. The sample consists of 8,051 firm year observations in the listed non-financial institutions over the period of 15 years. The study found out that outside directors on board positively affect firm value but negatively related to earnings quality.
Park and Shin (2004) however did not find empirical support on the association between earnings management and board independence for their Canadian sample where the corporate governance is highly concentrated and a larger block holder controls the public traded firms in Canada.

Luo & Jejarji (2019) investigated the association between characteristics of the board and the level of earnings management. The sample used for the analysis was 203 listed firms in the Financial Times and Stock Exchange (FTSE) from 2012 to 2016. Data was analyzed using multiple regression and the study found out that CEO duality and board size are negatively related to the level of earnings management as significant level and also found out an insignificant evidence that board meetings and independence are related with earnings management.

Lippolis & Grimaldi (2020) analysed the relationship between board independence and the effectiveness of monitoring earnings manipulation. The study applied multiple regression model on data collected from 297 Italian listed company for the period 2014-2016. The research shows that independent directors are not, as in other context a factor that contributes to earnings quality.

Hypotheses Development

Board Independence and Earnings Restatement

Earnings restatement is the act or tendency to disclose amended financial statements due to discovery of material inaccuracy contained in the previous financial statements. In other words, it refers to the behavior of the listed company to restate the previously published financial report while discovering and correcting the errors in the previous financial report. When the current financial report is found to be in error or flawed, the listed company can take the initiative to make corresponding financial supplements or amendments, or it can be made according to the requirements of the auditor or regulatory department in the subsequent accounting period.

The consequence of earnings restatement can be far-reaching, from the perspective of listed firm. Anderson and Yohn (2002) and Nguyen and Puri (2014) prove that the share price will drop significantly after the financial restatement announcement, resulting in a significant negative abnormal return. Hribar and Jenkins (2004) found that restatement would lead to a decline in the company’s expected future earnings and increase the company’s cost of equity capital. According to different value models, the cost of equity capital would increase by an average of 7% within one month after the financial restatement, and the higher the company’s financial bar, the higher the cost of equity capital. When restatement increases the company’s uncertainty and risk, investors will require a higher rate of return to compensate for the future risk and increase the company’s cost of capital.

Wilson (2006) and Chen et al. (2014) confirmed from the restatement of the content of earnings information that the company’s earnings response coefficient will be significantly reduced after the financial statements are restated, which means that investors’ confidence in the financial information system is received. The effect of restatement is reduced. The difference is that the former finds that the impact of restatement is short-lived, while the latter finds that the impact of restatement on investor confidence is long-term.

Kravet et al. (2010), Nguyen and Puri (2014) found from the perspective of information risk and information asymmetry that the company’s information risk factors and information asymmetry will increase significantly after financial restatement, reducing investors’ future development of the company.

Marciukaityte et al (2018) examined the independence of board directors and audit committee in companies that restated their earnings. Using a sample, 187 companies that restated their earnings over the period 1997 – 2002, this study finds that the probability of voluntary as opposed to forced restatement is positively related to the independence of both board of directors and the audit committee. The risks and uncertainties brought about by restatements have different effects on shareholders and creditors. It will change the company’s historical surplus and reduce investors expectations of future cash flows thereby reducing the company’s total value. Based on the arguments from various scholars, this study hypothesized that:

Ho_1: Board independence of listed healthcare companies in Nigeria does not significantly influence the probability of their earnings restatement.

Board Independence and Discretionary Accruals

Operationally, earnings management can be defined as the use of accrual management for the purpose of obtaining private benefits. Accruals are all accounting entries that modify cash flows for financial reporting purposes to arrive at a summary measure of firm performance for a finite period. Accruals arise as a result of accounting process. They are an unavoidable part of every accounting system. The role of accruals in financial reporting has been addressed in numerous studies.

The general approach for estimating discretionary accruals is to regress total accruals on variables that proxy for normal accrual. Unexpected accruals or discretionary accruals are considered to be unexplained components of total accruals. Discretionary accruals are probably the most commonly used empirical construct to measure earnings management. The concept sets forth that accruals can be split into two components; discretionary and nondiscretionary accruals. Nondiscretionary accruals are the ‘normal part’ of earnings that results from the neutral application of accounting rules. On the other hand, discretionary accruals are those caused by conservative or aggressive accounting policy choice. Neither discretionary nor nondiscretionary accruals are directly observable and have to be estimated using accounting data.

Extant empirical evidence on the relationship between board independence and discretionary accruals is mixed. Al Azeez et al (2019) examined the impact of board characteristics on earnings management (as proxied by discretionary accruals) in the international oil and gas corporations in the world. This study applied a quantitative research approach, secondary data, a sample of 71 corporations were selected from top 250 corporations for just one year 2016. The findings of this study indicated that the board independence has a significant impact on the reduction of earnings management.

Salihi & Kamardin (2015) studied the relationship between CEO dualities, directors independence and discretionary accruals in the Nigerian industrial goods companies. A total of 24 companies in the industrial goods sector of the Nigerian stock exchange were analyzed using multiple linear regression on a secondary data for the period 2011 – 2014. The result of the study showed that board directors independence is insignificantly related to discretionary accruals. Thus, from the foregoing the hypothesis is constructed as follows:

Ho_2: Board independence of listed healthcare companies in Nigeria does not significantly influence their discretionary accruals.

METHODOLOGY

This study adopted ex-post facto research design to investigate the relationship between board independence and earning management listed healthcare firms in Nigeria. For the purpose of this study, a sample of 11 listed healthcare companies was used out of the population that was made up of the thirteen (13) quoted healthcare companies on the Nigeria Stock Exchange as at 30 December, 2019. Pearson Product Moment Correlation and Ordinary Least Square (OLS) multiple regressions was adopted.

Measurement of Variables

Discretionary Accruals (DACC)

This study adopts modified Jones Model (Jones 1991; and Dechow et al; 1995) to measure discretionary accrual. Dechow *et al;* (1995) and Guay *et al*; (1996) argued that the modified Jones model is the most powerful model for estimating discretionary accruals among the existing models.

To measure discretionary accruals, we adopt the three-stage approach whereby the relevant data are taken and total accrual estimated there from as follows:

Stage 1: estimation of total accruals is the difference between earnings and cash flows from operating activities

$$TACC_{it} = NOI_{it} – COF_{it}$$

where i represent a sampled firm and t represents any study period from 2012 to 2019, NOI represents net operating income and COF represents net cash flow from operating activities

Stage 2: estimating the parameters (i.e. a_1, a_2 and a_3) of the following model:

$$TACC_{it} = \hat{a}_1\,(1/TA_{it-1}) + \hat{a}_2[(\Delta REV_{it-}\ \Delta REC_{it})/TA_{it-1}] + \hat{a}_3\,(PPE_{it}/TA_{it} - 1)$$

Stage 3: estimating the non-discretionary accruals being the absolute values of the residuals. We use the absolute value because either positive or negative discretionary accruals are considered as earnings management behavior (Chen et al; 2007; Barth et al; 2008)

Earnings Restatement

In line with the works of Palmrose, Richardson and Scholz (2004), earnings restatement is used to measure earnings management. The manifestation of prior period adjustment is to be taken as a confirmation that the firm has engaged in earnings restatement. Accordingly, earnings restatement, (*ERST*) is to be observed as a dummy variable, taking value equal to 1 if in any reporting year, the sampled firm made any prior year adjustment in its book, and 0 value if otherwise.

$$ERST\binom{A}{it} = \begin{cases} 1, & if\ NI_{t-1} is\ invalid \\ 0, & if\ NI_{t-1} is\ valid \end{cases}$$

Where *i* represents any of sampled firm; *t* represents time (years); and *NI* represents reported net income. It reads; for sampled firm *i*, in any year of observation *t*, if the reported net income for the immediate past year is invalid, *ERST* is equal to 1, otherwise 0.

Board Independence

In line with empirical literature, board independence is measured through the ratio of independent directors to the total directors as follows:

$$\mathrm{BIND} = \frac{\mathrm{n(INED)_{it}}}{\mathrm{n(BSIZE)_{it}}}$$

Where, n $(INED)_{it}$ reads: number of independent non-executive directors of firm i in period t, and $n(BSIZE)_{it}$ reads; number of board size for firm i in period t.

RESULTS

Descriptive Analysis

In order to have perceptive insight into the relative degree of prevalence of the manifest constructs of each of the study's variables, we present a descriptive statistics highlighting the central tendency, dispersion, and distributive properties of the constructs. Accordingly, each of the variables and their descriptive statistics are presented in table below:

Table 4.1: Descriptive Statistics

	DACC	ERST	BIND
Mean	0.535407	0.492063	0.361577
Median	0.441777	0.000000	0.400000
Maximum	2.263795	1.000000	0.500000
Minimum	0.008410	0.000000	0.187500

Std. Dev.	0.451644	0.503953	0.083554
Skewness	1.532636	0.031750	-0.078167
Kurtosis	6.043689	1.001008	2.113305
Jarque-Bera	48.98233	10.50000	2.128006
Probability	0.000000	0.005248	0.345072
Sum	33.73065	31.00000	22.77937
Sum Sq. Dev.	12.64689	15.74603	0.432839
Observations	63	63	63

Key:

DACC	*Discretionary Accruals*
ERST	*Earnings Restatement*
BIND	*Board Independence*

According to the table above, DACC was operationalized in a ratio scale as the absolute residual of regression equation of total accruals on change in turnover and tangible assets, where each term is scaled by total assets, using industry-wide data covering from 2012 to 2019. The regression equation achieved an explanatory capacity of 99.46% with an F-statistic of 2733.53 indicating a good fit of the data. The mean discretionary accrual observed is 0.5354 while the median is 0.4418. This can be interpreted to mean that, the income of an average firm out of the sampled firms over the period of observation, is either overstated or understated by 53.54 kobo (or 44.18 kobo if we take median as average) per ₦1 of the firm's total asset. The maximum and minimum discretionary accruals are ₦2.26 and 0.84 kobo per naira worth of total assets respectively. This practice however, is not widespread as indicated by the standard deviation (0.4516) and positive skewness (1.533). The standard deviation shows that actual data points deviate significantly away from the mean, implying that there are firms whose discretionary accruals are higher or less. The positive skewness on the other hand shows that there are more discretionary accruals lying to the right of the mean (i.e. lower than the average) than there are discretionary accruals lying to the left of the average. Furthermore, discretionary accruals are not normally distributed as the Jarque-Bera statistic (48.98) and associated probability value (0.000) shows.

ERST was operationalized dichotomously as 1 if there is restatement in any financial year or zero if there is no restatement in any financial year. According to table 4.2, the average incidence of earnings restatement in the Nigerian healthcare industry is 0.333 with a standard deviation of 0.475. Standard deviation being greater than the mean suggests that earnings restatement was not widespread during the period under review. Both the skewness and Jarque-Bera statistic support the view that earnings restatement is not normally distributed, thus further supporting the non-widespread of earnings restatement.

BIND was similarly operationalized as the proportion of the number of directors on board of the company, constituting non-executive directors. The mean and median observations are 0.3616 and 0.4 respectively. The standard deviation is 0.08355, which indicates a slight variability.

Inferential Analysis

Table 4.2: Board Independence Versus Earnings Management

Correlation Probability Observations	DACC	ERST	BIND
DACC	1.000000 ----- 63		
ERST	0.080817 0.5323 63	1.000000 ----- 63	
BIND	-0.240892 0.0093 63	0.235425 0.0323 63	1.000000 ----- 63

Here, we employed inferential statistics to test the hypotheses that we presented in 2.4, using bivariate analytical approach. In bivariate analysis as it is applicable in the current study, the objective is to analyze the relationship (in terms of significance and direction) of the two (i.e. dependent and independent) variables. Pearson's product moment correlation coefficient is the preferred tool of analysis. The null hypothesis rejection criterion is based on 5% level of significance (i.e. 95% confidence interval range). In other words, if the probability value of the estimated correlation coefficient is less than or equal to 5% (i.e. PV≤ 0.05), the null hypothesis related to the coefficient is rejected. On the other hand, if the probability value of the estimated coefficient is greater than 5% (i.e. PV > 0.05), the null hypothesis related to the coefficient is accepted. The results of the correlation analyses of the pairs of all the variables are presented in Table 4.2.

Discussion of Findings

The result of our analysis is significant to the subject matter and directly to our model expectations (*a priori* expectations) and completely supported the Agency theory. From our analysis, both of the two hypotheses concerning board independence and earnings management were confirmed to have significant relationship. Specifically, we found out that board independence was significantly related to earnings restatement. This implies that nonexecutive directors' monitoring activity is enough deterrence to put management's earnings restatement tendency under check. Again, a significant and negative relationship was observed between board independence and discretionary accruals. This result implies that monitoring activities of outside directors are able to check against management's discretionary accounting practices, thus confirming the postulations of Fama and Jensen (1983). Fama and Jensen (1983) argued that a board comprising majority of outside directors have the tendency of reducing agency conflict as they provide effective monitoring tool to the board. The premise of their argument is that boards are needed to monitor and control the actions of directors due to latter's opportunistic behavior (Berle & Means, 1932, and Jensen & Meckling, 1976). Fama and Jensen (1983) argued that the inclusion of outside directors increases the board's ability to be more efficient in monitoring the top management and to ensure there is no involvement of top managers to expropriate stakeholders' wealth. This finding is consistent with the works of Egbunike et al., (2015), Imoheayo et al. (2016), Kankanage (2015), Olatunde & Fumilayo (2019), Bello (2011), Uwuigbe (2014) and Comett (2009), however sharply deviates from the findings of Abata & Migiro(2017), Park & Shin (2004) and Jaggi et al. (2007). Park and Shin (2004) did not find empirical support on the association between earnings management and board independence for their Canadian sample where the corporate governance is highly concentrated and a large block holder controls the public traded firms in Canada. Furthermore, study by Jaggi *et al*. (2007) provided evidence of insignificant relationship between proportions of non-executive directors and accrual quality in high family-ownership samples of Hong Kong listed firms which suggest that the monitoring effectiveness of independent directors is reduced in family controlled firms. The result may be different if the study includes other firms not only family controlled firms because the independent directors are selected based on merit rather than family consideration.

Going by the foregoing therefore, it is arguable to conclude that the notion of how board independence influence earnings management is inconclusive. On one hand, this conclusion is premised on the divergence of correlational significance over the surrogacy of the two measures of earnings management regarding their correlation with board independence. On the other hand, it is conclusive because of conveyance of correlational direction between the two proxies of earnings management. While earnings restatement associates negatively with board independence, discretionary accrual relates negatively with board independence.

CONCLUSION AND RECOMMENDATIONS

On the final analysis, it was found that board independence of listed healthcare companies in Nigeria significantly influence the probability of their earnings restatement. Also, it is the finding that board independence of listed healthcare companies in Nigeria significantly influences their discretionary accruals. However, the measures contribute to our understanding of the underlying latent construct in relation to the selected dimensions of board structure. This study has produced evidence that is consistent with independent directors having strong incentives to curb earnings management tendencies. Thus, the study concludes that independent members of boards of directors are an important element in overall corporate governance as they are believed to serve as a control over possible self-interest actions by company management and thereby reduce agency costs. Listed healthcare companies should ensure adequate and rewarding remuneration package to attract and retain industry-experienced independent professionals to serve on their boards in non-executive capacity. Having independent non-executive directors in the boards of these companies enhance not only their transparency and disclosure quality, but will also energize the monitoring capacity and effectiveness of the board.

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