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# Executive compensation, share ownership, and earnings management of banks in Nigeria

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## Abstract

**Aim/purpose** – Higher compensation and increased share ownership are believed to drive fewer earnings management. Therefore, the study examines the moderating impact of share ownership on the relationship between executive compensation and earnings management of listed Deposit Money Banks in Nigeria.

**Design/methodology/approach** – Panel Least Square regression and Stata 13 were used for the estimation. The secondary data source was employed and extracted from the banks' published financial statements covering the period from 2007-2018. Post-estimation tests, including normality tests of standard error, heteroscedasticity, and multicollinearity, were carried out to validate the outcome. Executive compensation variable is represented by Chief Executive Officer Pay (CEO Pay), Board Chairman's compensation, and the highest-paid director, while executive share ownership represents the moderator variable. Chang et al. (2008) model was used to proxy earnings management.

**Findings** – The findings revealed that CEO Pay increases the banks' level of earnings management, while after moderation with executive share ownership; CEO pay decreases the possibilities of earnings management by banks. Compensation to Chairmen of the banks decreases the level of earnings management of banks. However, an increase in share ownership of the board with an increase in compensation to chairmen of banks' boards increases the earnings management practices of the management of the banks.

**Research implications/limitations** – The findings imply that the executive ownership interest should be made to align with that of the minority shareholders following an increase in their stake so that they can act in the overall best interest of the owners. The study is limited to only the banking sector and some specific executive compensation variables.

**Originality/value/contribution** – The utilization of the highest paid director variable and use of share ownership as a moderator between executive compensations and earnings management.

**Keywords:** earnings management, executive, share ownership, compensation, and expectancy theory.

**JEL Classification:** M21, M41, M42, G32.

## **1. Introduction**

The advocacies for financial statements free of error have dominated much of the discussion in recent times in accounting and finance literature. The reason for this is not far from the collapse of giant multinational firms as a result of financial scandals. Examples of such scandals are Enron Corporation, Parmalat, and WorldCom in developed nations, while Afribank, Oceanic Bank, and Intercontinental Bank were witnessed here in Nigeria among others. These events have attracted the attention of researchers, policymakers, regulators, and other stakeholders in finding out the cause and the possible solution. Therefore, these have called for the need to practice good corporate governance (Farouk, 2018). Efforts have been made by researchers to examine whether executive compensation influences earnings management or earnings management influences executive compensation. Some have argued that the perpetration of this act is to either entice innocent investors or to gain unearned accounting-based rewards via the preparation of inflated, deceptive, and/or false positions of banks' financial affairs (Farouk, 2018). Therefore, how executive compensation does affect the level of earnings management of banks through increased financial reporting quality. All attempt to mitigate the opportunistic tendencies of managers is to build investors' and potential investors' confidence (Oba, 2014).

It is argued that the pay-performance technique is a unique method used in aligning the manager's interest with the other shareholders. Meanwhile, modern evidence suggests incentives that are offensively assured by superiors over their inferiors, also offer managers with motivation to manipulate the firm's reported earnings and vice versa. Executive stock options (executive share ownership) have been held responsible for inspiring some of the biggest corporate frauds in recent years. Some researchers posited that equity-based executive compensa-

tions inspire the greater existence of maneuvers (Byun et al., 2016; Lee & Hwang, 2019; Park, 2019). However, some recent researchers believe that a well-compensated executive, whose pay is not tied to performance, rarely engages in earnings management (e.g., Ben Hassen, 2014; Fakhfakh, 2010).

Extant literature focused primarily on Chief Executive Officers' pay against earnings management, but this study considers three proxies of executive compensation which are chairman's compensation, highest-paid director, and CEO pay. Moreover, earlier research focused on the direct association between earnings management and executive compensation, this ignores other elements that could change the narrative of the association. The study contributes through the introduction of a moderator variable (executive share ownership) and partition regression using leverage as the basis. Bartov (1993) argued that the level of earnings management is influenced by the level of financial difficulty experienced by firms. To this end, the study examines the moderating effect of share ownership on the relationship between executive compensation and earnings management of listed deposit money banks in Nigeria because of the strategic importance of the sector in shaping the Nigerian Economy.

The remaining part of the study includes a literature review, hypotheses development, then a review of the theory underpinning the research. The methodology employed is discussed, then, the results and discussion of the findings. Lastly, the paper concludes and makes some recommendations.

## **2. Literature review**

The expectancy theory is about motivation and a cognitive process that is centered on the notion that people think there are associations between the effort they input into work, the income achieved from the effort, and the compensation they acquire from their effort. That is, people will be encouraged if they believe that strong effort through improved earnings will lead to improved compensation and improved compensation will lead to desired earnings. The first expectancy theory was developed by Vroom (1964) with work settings as a direct application. It was then expanded and refined later by Lawler and Suttle (1973) among others.

The theory (expectancy) is centered on these three key elements of assumptions: valence, expectancy, and instrumentality. A person is encouraged to the point that they think that (a) the value of the rewards is highly positive (valence), (b) effort will lead to acceptable performance (expectancy), and (c) performance will be rewarded (instrumentality).

Relating this theory to executive compensation suggests that in determining top management remuneration, three things (namely, expectancy, performance, and valence) are of cardinal importance. This implies that if executives put in good efforts which ultimately lead to good performance, they should be guaranteed their desired rewards. Therefore, if executives are adequately compensated and their pay is not tied to a commensurate increase in share ownership, it may reduce their opportunistic tendencies.

Park (2019) used time-varying industry classifications according to the similarity of the product; it was documented that Chief Executive Officer Compensation firms in the same product markets have a positive effect on the accruals management of firms. The effect was more noticeable under firms having CEO duality, but less prominent under the period after the passage of the Sarbanes-Oxley Act (2002). Harris et al. (2017) findings showed that a reduction in earnings management is not necessarily by the presence of female CEOs. But at a low degree of equity-based compensation, female CEOs are seen to discourage earnings management more than their male colleagues, while, at a high degree of equity-based compensation, both male and female CEOs demonstrate similar opportunistic tendencies. Therefore, high equity incentives to CEOs be it, male or female, increase their degree of earnings management. While contrary to this finding, Ben Hassen (2014) documented that total compensation has a negative influence on the absolute value of accruals.

Muhammad (2016) found that managers engage in high-income earnings management through discretionary accruals and adjust sales when company earnings approach their pre-specified minimum and target bonus levels. Also, it was revealed that managers adopt low-income earnings management through adjustment of discretionary accruals and sales when earnings move towards their pre-specified highest bonus levels. Oberholzer-Gee and Wulf (2012) found that the relationship between earnings manipulation and high executive incentives differs by the position and type of incentive pay. Zhou et al. (2008) documented that accrual-based earnings management does not have an impact on executive compensation. However, real earnings management affects executive compensation positively. Also, the effect on actual earnings management is strong for Chief Executive Officer Pay. Fakhfakh (2010) used a sample of 253 firms of "Fortune 1000" between 1994-2005, and the findings revealed that earning management is more prominent in organizations where the Chief Executive Officer's compensation is most closely tied to the value of equity.

Also, Byun et al. (2016) findings revealed that executives are likely to engage in earnings manipulation to increase their compensation especially when they observe inequity from relative compensation level. Laux and Laux (2009) examine the effect of board committees and CEO compensation on earnings management. Findings revealed that a surge in Chief Executive Officer Equity incentives does not increase earnings management. Sheikh et al. (2018) using unbalanced panel data from (non-financial) listed firms at Pakistan Stock Exchange found that CEO compensation does not influence the earnings management of firms in Pakistan. However, Lee and Hwang (2019) examined executive compensation's effect on the earnings management of banks in South Korea. The findings showed that an increase in the proportion of equity-linked compensation to incentive compensation increases the level of earnings management. Consequently, Chou and Chan (2018) used the US banking industry data and found that high CEO compensation increases the level of actual earnings management while the levels of pay-performance sensitivities have different influences on it at banks with CEO high (HPPS) and low (LPPS) pay-performance sensitivity, respectively.

Yan-Jun and Yan-Xin's (2017) findings revealed that monetary compensation has a significant and negative effect on real earnings management; however, executives' equity incentive positively affects real earnings management. Executives have opportunistic tendencies through the introduction of managerial power variables. Management power weakens the negative effect of monetary compensation on real earnings management but does not change the positive effect of equity incentive on real earnings management. Alzoubi (2016) used a sample of 62 companies listed on the Amman Stock Exchange and his findings showed that insider managerial ownership has a superior influence to mitigate earnings management. Kazemian and Sanusi's (2015) results showed that managerial ownership has a negative effect on the degree of accounting accruals. It was also found that managerial ownership is less important in big-sized firms than in small-sized firms.

Lazzem and Jilani (2018) found that increases in firm leverage provide incentives for managers to manipulate the earnings of French companies which are indexed in the Corporate Affairs Commission's All Tradable. The study covers the period from 2006-2012. The result from the empirical finding shows that there is an increase in leverage. Also, Nalarreason et al. (2018) found that an increase in firm size and firm leverage gives motivation for preparers of accounting reports to alter the earnings of manufacturing firms quoted on the Stock Exchange of Indonesia. Moghaddam and Abbaspour's (2017) results revealed that liquidity leverage

and financial leverage had a significant and positive influence on the level of earnings management of 14 banks listed on the Tehran Stock Exchange.

Based on the discussions above as regards executive compensation, share ownership, and leverage effect on earnings management. The study hypothesized as follows:

H1: Executive compensation has no significant influence on the earnings management of deposit money banks in Nigeria.

H2: Share ownership does not have a significant moderating influence on the relationship between executive compensation and earnings management of deposit money banks in Nigeria.

### **3. Research methodology**

The study adopts a causal-comparative research design and aligns with the positivist paradigm because data are quantitative whose observations lead to statistical analysis. The study population covers fourteen (14) quoted banks on the NSE as of the end of the study period December 31<sup>st</sup>, 2018. All fourteen banks were used for the analysis adopting the census approach. A secondary data source was employed and the data were extracted from the financial statements of the banks from 2006 to 2018 with 168 firm-year observations covering 12 years and 14 banks. The study also collected data through MachameRatios Database. Selection of this period is considered imperative because the period under review has continued to attract clamor for sound and credible financial reporting. Robust OLS regression was used as a technique through which the data were analyzed. However, both fixed effect and random effect were estimated but the Robust OLS was favored based on the robustness test conducted. The robustness tests were conducted in heteroscedasticity, multicollinearity, kernel density estimates, Hausman specification, and Lagrange multiplier. F-test (fixed effects) or the random effect heterogeneity test suggest that there are no significant differences in the bank-specific effect and hence the OLS result was adopted and interpreted. The kernel density estimate was estimated for checking the standard error's normality and the result proved to be tolerably mild as it is neither skewed to the right nor left.

Chang et al. (2008) model was used to measure earnings management. The selection of the model is appropriate based on its applicability in the financial sector. The residual estimated after regressing the Chang et al. (2008) model adopted was used to proxy earnings management in the parsimonious regression. The model is presented below.

$$DLLP_{it} / TA_{it-1} = LLP_{it} / TA_{it-1} - \{ \alpha_0 I / TA_{it-1} + \alpha_1 LCO_{it} / TA_{it-1} + \alpha_2 BBAL_{it} / TA_{it-1} \}$$

..... Model 1

Where DLLP is Discretionary Loan Loss Provision, LLP is Loan Loss Provision, LCO is Loan Charge-off, BBAL is the Beginning Balance of Loan Loss,  $TA_{t-1}$  is Lagged Total Assets and  $\alpha_0$  is Constant. Loan loss provisions, loan charge-offs, and the beginning balance of loans are believed to be a source through which banks manipulate their accounting earnings because these avail the managers some level of discretion through which they can alter the figures to achieve certain ends.

Our equation above forms the final parsimonious model of the study using balanced panel multiple regression. It has been posited in extant literature that some characteristics of firms to some extent influence the level of earnings management by firms. Therefore, there is a need to control it in the estimations of discretionary loan loss provisions. Scholars such as Wasimullah et al. (2010) and Bartov (1993) advanced an argument that financial difficulties offer firms increased incentives to embark on earnings manipulations. Also, the size of the firm may affect the level of opportunistic tendencies of management as estimation concerning discretionary accruals which do not control for the influence of size are most often times misspecified (Kothari et al., 2002; Roodposhti et al., 2012). Therefore, while the former (leverage) was used as the basis for partitioning the regression, the latter (size) was used as a control variable in the study. The parsimonious model is stated below.

$$EM_{it} = \beta_0 + \beta_1 CEOP_{it} + \beta_2 CCOM_{it} + \beta_3 HPDI_{it} + \beta_4 CEOP * ESOW_{it} + \beta_5 CCOM * ESOW_{it} + \beta_6 HPDI * ESOW_{it} + \beta_7 ESOW_{it} + \beta_8 FSZ_{it} \mu_{it} \dots \dots \dots \text{Model 2}$$

where:

EM is Earnings Management, CEOP is Chief Executive Officer Pay, CCOM is Chairman Compensation, HPDI is Highest-Paid Director, ESOW is Executive Share Ownership, FSZ is Bank size,  $\beta_1 - \beta_8$  is Coefficient of explanatory variables,  $\beta_0$  is Constant,  $\mu$  is Error Term. The way the independent variables are measured is described in Table 1.

**Table 1.** Variable measurement and definition

S/N	Variable	Nature	Measurement	Source(s)
1	Earnings Management	Dependent	Chang et al. (2008)	Farouk and Isa (2018)
2	Chief Executive Officer (CEO) Pay	Independent	Natural logarithm of the pay to the CEO	Park (2019); Sheikh et al. (2018)
3	Chairman compensation	Independent	The natural logarithm of the Board Chairman's compensation pay	Dong and Ozkan (2008)
4	Highest paid director	Independent	Natural logarithm of Compensation to the Highest Paid Director	Krauter and de Sousa (2013)
5	Executive share ownership	Moderator	Percentage of shares owned by executive directors over the total shares in issue.	Yan-Jun and Yan-Xin (2017)
6	Bank size	Control	Natural logarithm of Total amount of customers' deposit	Olalekan and Bodunde (2015)
7	Leverage	Basis of partition	Total Debt/Market value of assets	Rajan and Zingales (1995); Salawu and Agboola (2008); Frank and Goyal (2009)

Source: Authors' own computation.

#### 4. Research findings/results

The descriptive statistics are shown in Table 2. This shows the smallest, maximum, mean, standard deviation, and normality test of the data.

**Table 2.** Descriptive analysis

Variable	Min	Max	Mean	Std. Dev	Sk. test	VIF
EM	0.00021	0.0125	0.0023	0.0025	0.0000	
CEOP	15.63	22.14	19.29	0.98	0.0082	1.36
CCOM	12.87	18.14	16.29	1.10	0.0098	1.16
HPDI	13.99	19.68	17.84	0.81	0.0000	1.16
ESOW	1.017	59.59	10.67	13.5	0.0000	1.07
FSZ	17.41	22.13	20.36	0.90	0.3772	1.25
Mean VIF						1.21

Source: Result output from Stata 13.

The minimum value for earnings management is 0.0002 under Table 2; this implies that the quality of earnings was high within the banks. When compared with the highest level of discretionary loan loss provision from the residuals of



the model, it depicts that earnings management was low due to the value recorded for maximum implying high financial reporting quality and fewer earnings management. The average value further validates the statistics that earnings management was low within the period of the study. CEO pay had a minimum value of about six million naira and a maximum value of about nine hundred and twenty-five million naira, implying that the lowest amount of compensation paid to the CEO of banks was far less than the highest amount paid to the CEO. Chairman compensation had a minimum value of four hundred and forty-nine thousand and a maximum value of seven hundred and fifty-seven thousand. The lowest amount of compensation to the highest-paid directors of banks was eight million naira; while the maximum compensation to the highest-paid directors is two hundred and fifty-four million. The lowest ratio of shares owned by executives of banks was slightly above one percent, while the highest proportion of shares held by the executive is about fifty-nine percent. On average, the level of shares held by executives of banks was about 10%. The least and largest amount of customers' deposits representing bank size are nine hundred and fifty-two million and four trillion naira for the banks within the period covered by the study.

Table 3 displays Spearman correlation statistics for both explained and the explanatory variables; and between the explanatory variables of the study.

**Table 3.** Correlation analysis

	EM	CEOP	CCOM	HPDI	ESOW	FSZ
EM	1					
CEOP	.4248*	1				
CCOM	-.1474	-.0907	1			
HPDI	.5323*	.2136*	.0634	1		
ESOW	.1098	-.0031	-.0761	-.0719	1	
FSZ	.1042*	.1613*	-.1266	-.3181*	.2124*	1

\* Correlation is significant at 0.01 and 0.05 levels (2-tailed).

Source: Result output from Stata 13.

Earnings management has a positive association with CEO pay. This implies that the variables move at different magnitudes but same direction. The compensation of the Chairman was documented to have an inverse association with earnings management. Earnings management showed a positive association with the highest-paid director. This implies that earnings management has an inverse relationship with the highest-paid director variable. Executive share ownership and size of the bank were also found to have a positive correlation with earnings management of listed banks in Nigeria which thus connotes a di-

rect but weak association between them. Finally, the associations between other independent variables were mostly insignificant. The mean (VIF) value of 1.21 further substantiates that multicollinearity is not a problem (Casey et al., 1999).

## 5. Discussion

The multiple regression results and test of significance difference are presented in Tables 4-6. Cumulatively, the model records an  $R^2$  of 0.5462 (54%) which shows the extent to which the earnings management is accounted for by the independent variables which include CEO pay, highest-paid director, chairman's compensation, moderated CEO pay, moderated chairman's compensation, moderated highest-paid director, executive share ownership and bank size. In addition, the Fisher exact test value of 34.14 indicates that the model of the study is fit and as such, the relationship between the explained and explanatory variables was not due to the mere occurrence as there is a 99% level of confidence (P. value < .001).

The findings of the study provide evidence of rejecting the null hypotheses in respect of all the variables of the study due to their significance at 1% and 5% levels except for the highest-paid director.

**Table 4.** Summary of result (robust OLS)

Variables	Coeff	T-Stat	Prob	Cum. R
Constant	54.524	24.86	0.000	
CEOP	-2.38e-09	-2.24	0.027	
CCOM	1.93e-07	3.40	0.001	
HPDI	1.89e-08	1.20	0.230	
ESOW	-0.01755	-0.26	0.798	
FS	2.69e-09	2.61	0.010	
$R^2$				0.1505
F-Statistics				7.17
P-Value				0.0000

\* Coeff = Coefficient, Stat = Statistics, Prob = Probability, Cum. R = Cumulative Result.

Source: Result output from Stata 13.

**Table 5.** Summary of result (robust OLS)

Variables	Coeff	T-Stat	Prob	Cum. R
Constant	6.4643	10.9	0.000	
CEOP	0.5426	2.61	0.010	
CCOM	-0.3127	-1.90	0.091	
HPDI	0.1599	6.77	0.000	
CEOP*ESOW	-1.0092	-4.17	0.000	
CCOM*ESOW	0.9548	5.28	0.000	
HPDI*ESOW	-0.0126	-3.40	0.001	
ESOW	0.0004	2.26	0.076	
FSZ	0.9578	2.26	0.025	
R <sup>2</sup>				0.5462
F-Statistics				34.14
P-Value				0.0000
Test Parameter				136.16
P-Value				0.0000

\* Coeff = Coefficient, Stat = Statistics, Prob = Probability, Cum. R = Cumulative Result.

Source: Result output from Stata 13.

**Table 6.** Summary of robust OLS regression for high and low leverage banks

Variables	High leverage banks			Low leverage banks		
	Coeff	T-Stat	Prob	Coeff	T-Stat	Prob
Constant	8.751	6.65	0.000	6.382	6.69	0.000
CEOP	0.766	3.06	0.003	0.284	0.98	0.331
CCOM	-0.305	-1.27	0.208	-0.408	-1.26	0.214
HPDI	0.146	4.38	0.000	0.180	4.99	0.000
CEOP*ESOW	-0.689	-2.27	0.025	-1.627	-4.98	0.000
CCOM*ESOW	0.728	3.54	0.001	0.746	1.78	0.073
HPDI*ESOW	-0.014	-2.57	0.012	-0.008	-1.78	0.080
ESOW	-0.001	-0.11	0.909	0.001	3.68	0.001
FSZ	-1.123	-1.06	0.292	0.183	0.26	0.793
R <sup>2</sup>		0.5166			0.6743	
F-Statistics		15.78			22.31	
P-value		0.0000			0.0000	
Test Parameter		61.14			55.07	
P-value		0.0000			0.0000	

\* Coeff = Coefficient, Stat = Statistics, Prob = Probability, Cum. R = Cumulative Result.

Source: Result output from Stata 13.

The regression results revealed that Chief Executive Officer Pay had a positive and significant influence on the earnings management of the banks. This means that at any point increase in the level amount of compensation paid to the CEO, the banks' financial reporting quality decreases significantly. However,

when CEO pay is moderated with executive share ownership, it exerts a negative and significant influence on the earnings management of banks. This connotes that when the moderator variable and the CEO pay increase, earnings management decreases significantly. Further to this, CEO pay impacts more on the level of earnings management than when it is moderated with executive share ownership. This may be a result of the argument put forward by the promoters of interest alignment hypothesis stating that high levels of insider ownership can become effective in aligning insiders' interests to that of other minority shareholders thereby leading them to take value-maximizing decisions and increased financial reporting quality. The finding is in contrast with Lee and Hwang (2019) and Yan-Jun and Yan-Xin (2017).

The compensation to the chairman has a negative t-statistics and coefficient which is significant at the level of 10%. This shows compensation to banks' board chairmen has a significant but negative influence on the management of their earnings. This means that an upward movement in the amount paid to chairmen of banks' boards increases the quality of financial reporting significantly. Meanwhile, when the chairman's compensation was moderated with share ownership, the banks' earnings management increases tremendously. This implies that improvement in financial reporting quality occurs when there is only an increase in the chairman's compensation than when executive share ownership also increases. This result of increasing chairman compensation and share ownership having a positive influence on the management of earnings may be a result of over-dominance through large share ownership by Chairmen of the bank's board, this, therefore, weakens their negative effect on earnings management. This result is in tandem with the studies of Yan-Jun and Yan-Xin (2017) and Lee and Hwang (2019).

The highest-paid director based on its beta value of 0.1599 is significant at the level of 1% positively and significantly affects the earnings management of the quoted deposit money banks in Nigeria. It implies thus that when the amount of remuneration paid to the highest-paid directors' is increased; the level of the financial reporting quality of banks is reduced significantly. However, when the highest-paid director was moderated with executive share ownership, the earnings management reduces significantly. This means that the moderated variable impact positively on the financial reporting quality of banks. The outcome of this variable may not be surprising if the director's pay is not tied to performance, they will not be encouraged to engage in the management of their earnings to attract higher pay or increases ownership in the bank.

For executive share ownership, it indicates a positive and significant effect on the earnings management of banks. However, this implies that every point increase in the percentage of shares held by the banks' executive directors; reduces the level of earnings management mitigation and brings about poor-quality financial reporting. This may be a result of the assertion by advocates of the entrenchment hypothesis, that an increased percentage of insider ownership can become less effective in aligning insiders to take value-maximizing decisions, which may increase the level of management of earnings. The finding is contrary to the studies of Alzoubi (2016) and Kazemian and Sanusi (2015) who found that insider managerial ownership has a superior influence on mitigating earnings management.

Bank size is found to have a positive and strong influence on the management of earnings of banks. This implies that with any point improvement in the number of customers' deposits, the quality of financial reporting of the listed deposit money banks decreases significantly. This finding is not surprising as larger firms are exposed to the high political costs and as such will want to avoid high taxes thereby leading to manipulation of accounting earnings. This finding is in line with the assertion by (Bartov, 1993) and Watts and Zimmerman (1990).

It is, however, concluded that executive compensation significantly influences the level of management of earnings in quoted banks in Nigeria and as such hypothesis one is rejected.

The significant influence of the share ownership variable on the earnings management of banks in Table 4 shows that the variable can be used as a moderator. However, a comparison of the variables using the test parameter indicates that the interaction between executive compensation and share ownership accounted for significantly more variance than when they are used as single variables. This implies that the moderated variables explain earnings management better in relation to the independent variables of the study when compared with the un-moderated variables. Following the findings of this study which show that share ownership moderates significantly the association between executive compensation and management of earnings in listed banks, this, therefore, provides evidence to reject the null hypothesis two of the study.

For the portioned regression, interestingly, executive share ownership and bank size reduce the level of earnings management of banks when they are high-levered, and it increases their level of earnings management when the banks are low-levered. Furthermore, the key variables used for the study have the same directional effect on the management of earnings in both high and low levered banks except executive ownership and bank size.

## **6. Conclusions**

The study set out to establish the moderating effect of share ownership on executive compensation and earnings management of listed Deposit Money Banks in Nigeria. It was established that share ownership of executives drives and strengthens the relationships between executive compensation and earnings management through the reduction of earnings management of banks. The study has made significant contributions through the introduction of new variables such as highly paid directors with executive share ownership. The study has contributed to the existing findings by establishing that shares owned by executives can strengthen the relationship between their compensation and their tendencies to engage in earnings management. The variables before moderation show a positive effect on earnings management which is in line with the previous findings. In addition, extant studies were able to establish that executive compensation drives earnings management higher, but the introduction of share ownership as a moderator helps reduce earnings manipulations. The study revealed that compensation to executives and the level of their share ownership significantly affect the quality of financial reporting in listed DMBs in Nigeria. The policy implication of the study is for the Central Bank of Nigeria (CBN) to formulate a policy to increase the level of share ownership by the CEO to encourage alignment of their interest with other minority shareholders and also discourage ownership domination and control by concentrated owners. It is recommended, among others, that the Chief Executive officer's and highest-paid director's level of share ownership in the bank be increased alongside an increase in their compensation to mitigate their opportunistic tendencies. Management of quoted banks in Nigeria must be more conscious of their executive compensation and the level of shares held by the executives when the banks are low levered as it drives the earnings management higher than when they are high levered because more pressure from equity holders provides them with the opportunity to engage in earnings management practice to retain their seat and/or attract more funding.

The findings should be considered in light of the following limitations. For example, the study only covers the listed deposit money banks in Nigeria because it is a sector that is under close surveillance, highly regulated, and monitored. Therefore, the findings and recommendations are only applicable to the banking sector as the executive compensation variables vary significantly in other sectors. Therefore, the study suggests that interested researchers in this area should consid-

er other sectors to make the findings flexible for generalization. Also, the model of Chang et al. (2008) was employed to proxy financial reporting quality. Interested researchers should consider more recent and sophisticated models for measuring financial reporting quality such as Yoon et al. (2012).

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