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BOARD SIZE AND FINANCIAL STATEMENTS MANIPULATION IN LISTED NON-FINANCIAL FIRMS IN NIGERIA

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Abstract

This study examines the relationship between board size and financial statements manipulation among listed non-financial firms in Nigeria. Using 1,001 firm-year observations and a bivariate regression model, the study finds a positive and statistically significant association between board size and the financial statements manipulation proxy (β=0.003β=0.003, t=2.089t=2.089, p=0.037p=0.037; R2=0.004R2=0.004; F(1,999)=4.366F(1,999)=4.366, p=0.037p=0.037). Because higher values of the dependent variable indicate greater manipulation, the positive coefficient suggests that larger boards are associated with higher accrual-based manipulation in this preliminary specification, not with greater detection or prevention. The effect is statistically significant but economically small, explaining only 0.4% of the variation in the manipulation proxy. The finding contrasts with monitoring-enhancement perspectives and is more consistent with coordination-cost and omitted-variable explanations. The study concludes that board size alone is an insufficient governance safeguard and that board effectiveness, composition, independence, and financial expertise matter more than size. The results should be treated as preliminary until re-estimated with control variables, panel methods, and alternative manipulation proxies.

Keywords: Board size, financial statements manipulation, earnings management, corporate governance, non-financial firms, Nigeria

Introduction

Financial statements manipulation remains a persistent concern in corporate governance because it undermines investor confidence, capital-market efficiency, and the reliability of financial reporting. Corporate governance mechanisms are expected to constrain opportunistic reporting, and the board of directors is the primary internal monitoring body responsible for overseeing management and safeguarding stakeholder interests.

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The Nigerian corporate governance environment has been shaped by codes and regulatory reforms, including the Financial Reporting Council of Nigeria (FRCN) Code of Corporate Governance. Yet concerns about financial reporting manipulation among listed firms persist. Board size is one governance attribute that has attracted attention, but empirical evidence on its relationship with financial statements manipulation is mixed. Some studies suggest that larger boards improve monitoring through diverse expertise; others argue that oversized boards suffer from coordination problems, free-riding, and diffusion of responsibility.

This study examines whether board size has a significant effect on financial statements manipulation among listed non-financial firms in Nigeria. Unlike the original interpretation, this revision treats the dependent variable consistently: higher FSM values indicate greater manipulation. Therefore, a positive coefficient means that larger boards are associated with more manipulation, not less. The study tests the non-directional hypothesis that board size significantly influences financial statements manipulation.

The study contributes by correcting the interpretation of the board size–FSM relationship, highlighting the distinction between financial reporting quality and manipulation, and emphasizing the need for better-specified models in Nigerian corporate governance research.

Theoretical framework

The study draws on agency theory and the resource-based view, but it does not assume that larger boards necessarily reduce manipulation. Agency theory suggests that boards monitor managers and reduce information asymmetry. Larger boards may bring diverse expertise and monitoring capacity. However, agency theory also recognizes coordination costs, free-riding, and decision-making inefficiencies in large groups. The resource-based view similarly suggests that diverse human capital can improve monitoring, but only if board processes convert those resources into effective oversight.

Thus, the theoretical effect of board size on FSM is ambiguous. Larger boards may constrain manipulation, or they may fail to do so because of coordination problems and diffused responsibility. This ambiguity motivates a non-directional hypothesis.

Board size and financial reporting outcomes

Prior evidence is mixed. Sinebe (2025) and Kajola et al. (2020) report that board size has a negative effect on earnings management, suggesting that larger boards constrain manipulation. Gbadebo (2024) similarly reports a negative and significant impact on earnings management. Oladapo et al. (2024) and Ekwueme and Aniefor (2023) report positive effects on financial reporting quality, which imply, other things equal, lower manipulation.

However, other studies report insignificant or contrary results. Onatuyeh (2025) finds a positive but insignificant relationship between board size and financial reporting quality. Sule and Monye-Emina (2022) report a positive effect of board size on financial statement fraud while recommending that firms above the industry average consider reducing board size. These inconsistencies may reflect differences in proxies, samples, periods, and model specifications.

A key conceptual problem in this literature is the conflation of financial reporting quality with financial statements manipulation. A positive effect on reporting quality implies a negative effect

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on manipulation; the two should not be interpreted interchangeably. This study therefore treats FSM as the dependent variable and interprets the sign accordingly.

Hypothesis

H_0: Board size has no significant effect on financial statements manipulation in listed non-financial firms in Nigeria.

H_1: Board size has a significant effect on financial statements manipulation in listed non-financial firms in Nigeria.

Research design

The study adopts an ex-post facto research design using secondary data from annual reports and financial statements. The design is appropriate for examining associations between existing governance and reporting variables, but it does not by itself establish causality.

Population and sample

The population comprises listed non-financial firms on the Nigerian Exchange Group (NGX). The sample includes firms with complete annual reports and consistent reporting practices, yielding 1,001 firm-year observations. The sample period and the exact number of firms should be stated explicitly in the final submission.

Variable measurement

Dependent variable: Financial statements manipulation (FSM). FSM is proxied by discretionary accruals estimated using the modified Jones model. In this revision, higher values of the proxy indicate greater accrual-based manipulation. The study acknowledges that discretionary accruals measure earnings management rather than financial statement fraud directly. A robustness check using the Beneish M-Score is recommended.

Independent variable: Board size (BSIZE). Board size is measured as the total number of directors on the board.

Control variables required for the final model. The bivariate model is underspecified. The final model should control for firm size, leverage, profitability, growth, board independence, CEO duality, audit quality, audit committee independence, ownership concentration, industry, and year.

Model specification

The preliminary bivariate model is:

$FSM=\alpha+\beta 1BSIZE+\varepsilon FSM=\alpha+\beta 1BSIZE+\varepsilon$

The augmented model required for final estimation is:

$FSMit=\alpha+\beta 1BSIZEit+\beta 2FSIZEit+\beta 3LEVit+\beta 4ROAit+\beta 5GROWTHit+\beta 6BINDit+\beta 7CEODUALit+\beta 8AUDITit+\beta 9ACINDit+\gamma Industryi+\delta Yeart+\varepsilon it FSMit=\alpha+\beta 1BSIZEit+\beta 2FSIZEit+\beta 3LEVit+\beta 4ROAit+\beta 5GROWTHit+\beta 6BINDit+\beta 7CEODUALit+\beta 8AUDITit+\beta 9ACINDit+\gamma Industryi+\delta Yeart+\varepsilon it$

where ii indexes firms and tt indexes years. Firm fixed effects or random effects, with standard errors clustered by firm, should be used where appropriate.

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Diagnostics

The final analysis should report descriptive statistics, a correlation matrix, normality tests, heteroskedasticity tests, multicollinearity diagnostics, and panel specification tests. The Durbin–Watson statistic alone is insufficient.

Preliminary bivariate results

The corrected ANOVA is presented in Table 4.8. With 1,001 observations, the total degrees of freedom are 1,000; the residual degrees of freedom are 999.

Table 4.8: ANOVA — Board Size and Financial Statements Manipulation

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.978	1	1.978	4.366	.037
Residual	452.998	999	.453		
Total	454.976	1000			

Source: Researcher's computation, 2026

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error	Durbin–Watson
1	.066	.004	.003	.67305	1.870

Source: Researcher's computation, 2026

Table 4.10: Regression Coefficients

Model	Unstandardized B	Std. Error	Standardized Beta	t	Sig.
Constant	.889	.036		24.997	.000
Board Size	.003	.001	.066	2.089	.037

Source: Researcher's computation, 2026

Hypothesis testing

The model is statistically significant at the 5% level ($F(1,999)=4.366F(1,999)=4.366$, $p=0.037p=0.037$). The null hypothesis is therefore rejected, and the alternate hypothesis is accepted: board size has a statistically significant effect on financial statements manipulation.

However, the sign must be interpreted correctly. The coefficient for board size is positive ($\beta=0.003\beta=0.003$). Since higher FSM values indicate greater manipulation, the result means that larger boards are associated with higher accrual-based manipulation in this bivariate specification. It does not mean that larger boards increase detection or prevention; detection and prevention are not measured by the dependent variable.

Discussion

The positive coefficient contrasts with the monitoring-enhancement view and with studies such as Sinebe (2025), Kajola et al. (2020), and Gbadebo (2024), which report that larger boards reduce earnings management. It is more consistent with coordination-cost, free-riding, and diffusion-of-

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responsibility arguments, or with omitted-variable explanations: larger boards may be correlated with firm complexity, industry, ownership structure, or other governance attributes that also affect reporting.

The result should not be read causally. The R2R2 is only 0.004, meaning board size explains about 0.4% of the variation in FSM. The relationship is statistically significant largely because the sample is large, but its economic significance is negligible. Board size is therefore not a sufficient governance safeguard when considered alone.

The finding also highlights the importance of construct validity. Discretionary accruals capture earnings management, not financial statement fraud directly. Future work should use multiple proxies, including the Beneish M-Score, and should estimate panel models with controls and robust standard errors.

Conclusion

This study examined the relationship between board size and financial statements manipulation among listed non-financial firms in Nigeria. The preliminary bivariate analysis finds a positive and statistically significant association: larger boards are associated with higher accrual-based manipulation in the reported specification. This contradicts the interpretation that larger boards necessarily enhance detection and prevention. The effect is statistically significant but economically small, and the bivariate model cannot support causal or strong policy claims.

The study concludes that board size alone is an insufficient explanation of financial statements manipulation. Governance effectiveness depends on board composition, independence, financial expertise, committee functioning, and the broader institutional environment. Board size should therefore be evaluated alongside these factors rather than treated as a stand-alone remedy.

Recommendations

The following recommendations are made for the study:

i. Regulators should not prescribe larger boards as an anti-manipulation mechanism. The FRCN and the Securities and Exchange Commission should emphasize board effectiveness, independence, financial expertise, and active monitoring rather than board size alone.

ii. Firms should review board size alongside composition and coordination costs. If larger boards are associated with higher manipulation proxies, firms should avoid oversized boards that may suffer from coordination and free-riding problems, and should strengthen board processes.

iii. Investors should not rely on board size as a signal of reporting quality. Board size should be considered together with independence, audit committee quality, financial expertise, and audit quality.

iv. Researchers should re-estimate the model with controls and panel methods. Future studies should include firm size, leverage, profitability, growth, board independence, CEO duality, audit quality, ownership concentration, industry, and year effects, and should test alternative manipulation proxies such as the Beneish M-Score.

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Limitations

The study has several limitations. First, the reported bivariate model omits relevant control variables and may suffer from omitted-variable bias. Second, the design does not establish causality. Third, discretionary accruals are an imperfect proxy for financial statements manipulation and do not directly measure fraud. Fourth, the study does not report the sample period, firm count, or detailed diagnostic tests. Fifth, the explanatory power of the model is very low. These limitations should be addressed in the final empirical version.

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