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EARNINGS MANAGEMENT, BOARD EXPERTISE, AND FINANCIAL PERFORMANCE OF NON-FINANCIAL LISTED COMPANIES ON THE GHANA STOCK EXCHANGE

PAUL SAM-TAIDOO

2022

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EARNINGS MANAGEMENT, BOARD EXPERTISE, AND FINANCIAL PERFORMANCE OF NON-FINANCIAL LISTED COMPANIES ON THE GHANA STOCK EXCHANGE

BY

PAUL SAM-TAIDOO

Dissertation submitted to Department of Accounting of the School of Business, College of Humanities and Legal Studies, University of Cape Coast, in partial fulfillment of the requirement for the award of Masters of Business Administration degree in Accounting

OCTOBER 2022

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature………………………… Date:…………………….

Name: Paul Sam-Taidoo

Supervisors' Declaration

I hereby declare that the preparation and presentation of this dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature…………………...... Date:………………….....

Name: Mr. Patrick Darkwah

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ABSTRACT

The empirical discussion sought to investigate Earnings Management, Board Expertise, and Financial Performance of Non-financial Listed companies on the GSE. To enable a deeper under understanding of the multidimensionality of firms' profits and different management intentions to smooth earnings, this study investigated the impact discretionary accruals has on return on asset (ROA). An explanatory design was employed for the quantitative study. Based on criterion sampling, annual reports of 14 non-financial firms were obtained across periods ranging from 2010 to 2019. To deal with the possible issues of persistence in the firms' profits and endogeneity in the model specification, the two step system generalized method of moments (SGMM) was employed to execute the objectives of the study. Findings from the SGMM reveals that management manage earnings upwards to increase the ROA. The findings correspond with the agency and positive accounting theories. Also, the research finds board expertise to have a significant direct influence on performance. Finally, this study finds board expertise to be an effective moderator between EM and performance. The study concludes that earnings management and board expertise are negatively and positively related with performance respectively. Further, board expertise effectively moderates the relationship between earnings management and performance. Thus, this study recommends shareholders to enhance corporate governance mechanisms and tie incentives with firm values. Other policies for regulators are further discussed.

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My deepest appreciation goes out to my supervisor, Mr. Patrick Darkwah of the Department of Accounting at the University of Cape Coast, for his expert direction, counsel, encouragement, and kindness in overseeing this effort. I'm incredibly appreciative. Finally, I appreciate the help from my family and friends.

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DEDICATION

To my wife Evelyn Sam-Taidoo and my friends Isaac Kofi Annan Mensah and Sam Amoah.

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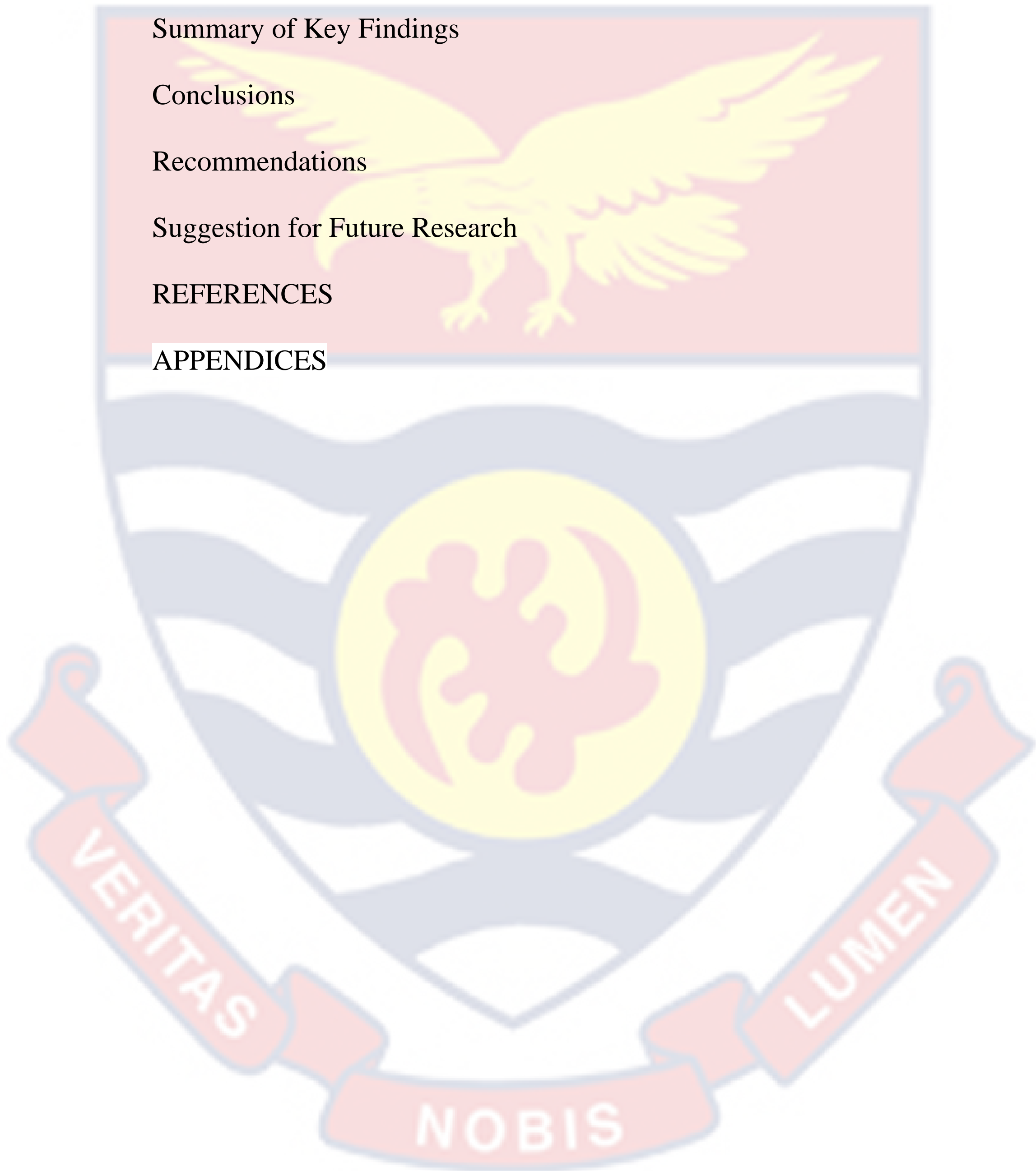

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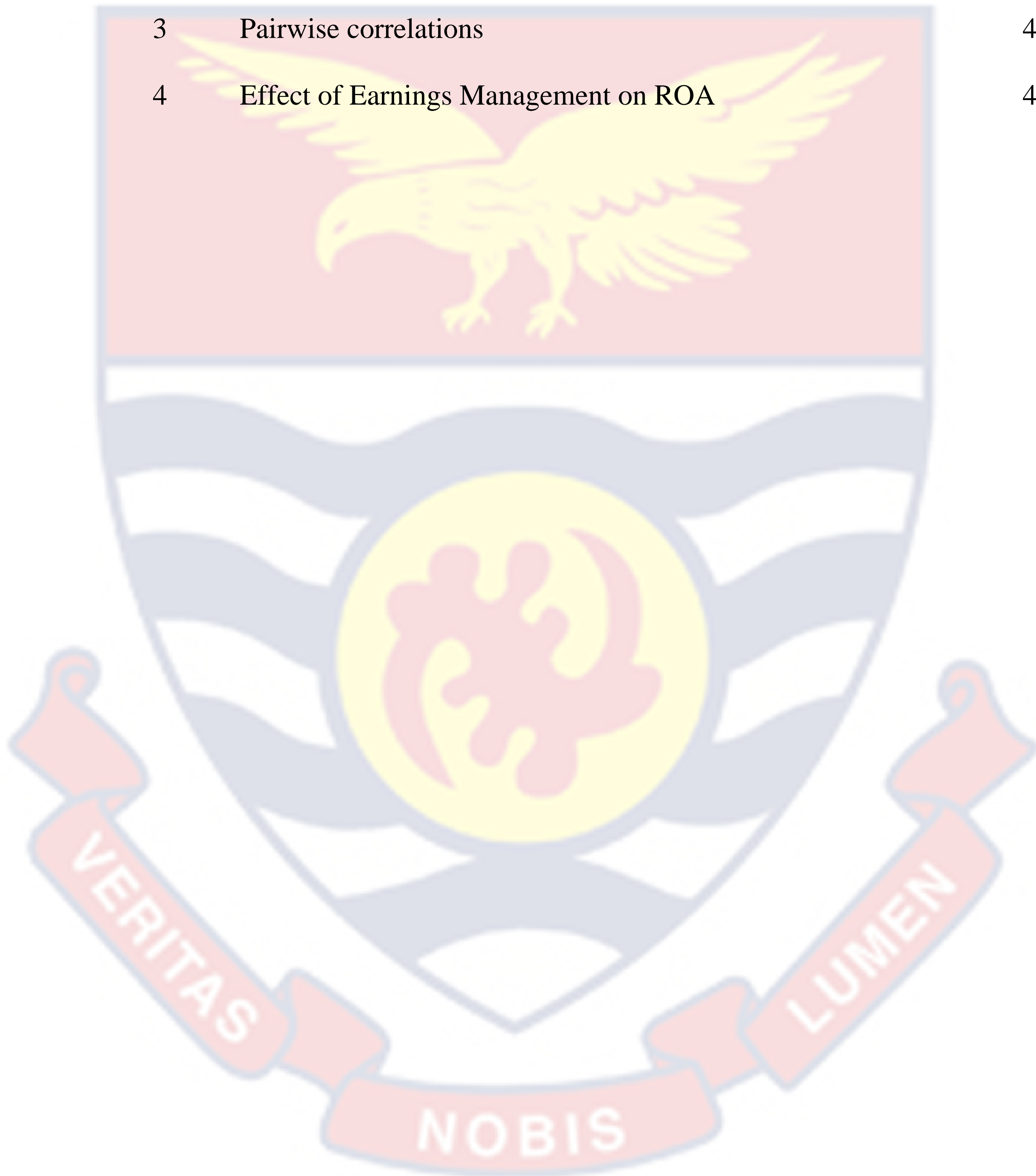

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CHAPTER ONE

INTRODUCTION

The sole valuable item provided in a company's income statement is earnings, sometimes known instinctively as net profit or net income. The main goal is to give stakeholders and management the information they need to make decisions about how well a company is performing. In order to determine the wealth of investors, it acts as a stand-in for the evaluation of a company's financial health. Potential shareholders and businesses are drawn to companies with strong financial performance, which raises stock prices. As a result, businesses maintain an alluring value to draw in the public. In light of this, managers use tactics and procedures to adjust reported profits in accordance with generally accepted accounting principles (GAAP) in an effort to produce future and persuasive earnings targets. This is known as earnings management.

Background to the study

Businesses create financial statements to provide stakeholders with broad information so they may make economic decisions. The ultimate aim of financial reporting is to provide accurate data about economic entities that can be used to make decisions about the economy (IASB, 2010). The management's success and effectiveness in using the entity's resources is also shown in the financial accounts. Accordingly, Sloan (2001) claimed that, financial reports are the initial basis of knowledge about a company, and in order for them to fulfill the various demands of stakeholders, they must not only be in compliance with the International Financial Reporting Standards

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that regulate their preparation and presentation but should be of extreme standard as well.

The relevance of having access to high-quality financial reports is vital since it determines how investors, lenders, creditors, and other stakeholders allocate capital, boosting the effectiveness of the market as a whole (IASB, 2006). Financial and accounting information is assumed to be of high quality when it exhibits a set of certain qualitative features, according to the IASB's theoretical framework. The IASB elaborates on this by emphasizing that financial statement information is of extreme standard when it has the basic features of relevance and faithful representation. It continues by stating that comparable, reliable, timely, and comprehensible information also improve the qualitative features.

Financial statements need to be accurate and portray what they claim to be presenting because of the nature of the decisions that users of these statements make. For instance, investors would base their decisions on the predicted returns from assets like stocks and debt instruments when deciding whether to purchase, sell, or hold them. These expected returns are calculated using data from the financial statements. As a result, whether or not financial statements are of acceptable quality will determine whether or not the judgements are quality. Countries and companies have therefore increased the usage of obligatory or optional transparency guidelines through theoretical and legal frameworks. Different abstract and regulatory frameworks govern the preparation and presentation of financial reports in different countries. IFRS, for example, were created by the IASB to be applied internationally to

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complement and regulate the preparation and presentation of financial statements in different countries.

Accounting procedures in Ghana were adopted from the British Accounting System before the adoption of the Companies Act 1963, Act 179 (Code, 1963). This was demonstrated through movement of professionals from the United Kingdom (UK), which in large part meant that the British system was applied to the management of all the country's main businesses (Antwi, 2010). Since expert accountants and, by addition, professional accounting bodies are necessary for the development of an accounting system in a nation, British accounting bodies established examination centers in a number of key cities in emerging nations like Ghana, making it possible for locals to earn British-issued professional accounting qualifications.

The Companies Act 1963, Act 179 stipulates the prerequisites for professional accounting processes in Ghana, according to the World Bank (2004). The Companies' Code specifies the layouts for financial statement presentation and disclosure standards, but it includes nothing about how to prepare financial statements in conformance with IASB-mandated standards. As a result, in the late 1990s, the ICAG created the Ghana National Accounting Standards, which went into effect in 1997. In 2007, the ICAG embraced the IFRS, making it the new accounting standard that all banks, state-owned enterprises, securities brokers, public utilities, insurance firms, and pension funds must use when preparing their financial accounts (Appiah, Awunyo-Vitor, Mireku & Ahiagbah, 2016). The ICAG is in charge of supervising financial reporting and making sure that standards are being followed.

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The ICAG however relies on its membership to persuade firms to comply because it has the authority to compel conformance with the standards it assumes. There are still some challenges with earnings management in Ghana since the adoption of the IFRS in 2007 (Mensah, 2021).

Although the IFRS to a large extent is meant to ensure that accounting information is standardized, it provides some sort of flexibility in reporting earnings and discretionary accruals. To show a favorable indication to investors, managers may present the financial statement in a way that does not reflect the state of reality (Jensen & Meckling, 1976). According to Schipper (1989), this behavior, also known as earnings management, is an intended association of a manager in the process of external FR to generate personal welfares. Leuz, Nanda & Wysocki (2003) defines earnings management as the change in financial performance presented by business professionals either to deceive particular stakeholders or to influence contractual problems.

Following the global financial crises in recent times (Asian financial crisis and 2008 financial crisis), earnings management has been the topic of discussion among academicians, standard setters, governments and security and exchanges commission (Ghyasi, 2017). Earnings management provides the platform for managers to sometimes use their subjectiveness in recording certain accounting items to influence the perception of stakeholders on the actual state of the company's performance (Cimini, 2015). The actual influence of earnings management on performance will be contingent on the incentives of the management. Indeed, it can be argued that management with incentives to meet financial and bonus targets will tend to manage earnings upwards. Contrariwise, management may tend to manage earnings downwards

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in times of stupendous financial performance so as to smooth earnings for periods of hardship (Dakhlallh, Rashid, Abdullah, Qawqzeh & Dakhlallh, 2020).

The significance of sound accounting processes in promoting openness and accountability cannot be understated, as evidenced by Enron and the most recent global financial crisis (Aksu & Espahbodi, 2016). Good accounting practices are one of the ways that external stakeholders protect themselves from insider expropriation (Habib & Jiang, 2015). High-quality financial reporting would eventually result in accountability and effective and efficient resource allocation. In 2017, the failure of the Unique Trust Bank, Capital Bank Limited and other financial institutions, prompted concerns about whether management were accurately disclosing their firms' real financial performance and status (Osei, Yusheng, Caesar, Tawiah & Angelina, 2019). Though not reflected in previous years' financial statements, these firms were dealing with severe capital inadequacy issues.

Notwithstanding, managers' ability to involve in earnings management is heavily dependent on the existence of effecient corporate governance structures. This is as a result of governance playing a vital role in safeguarding shareholders' funds by seeking to eliminate managers' self-interested and fraudulent behaviour (Man & Wong, 2013). According to Cohen, Krishnamoorthy and Wright (2002), one crucial function of corporate governance measures is to guarantee the dignity of the financial reporting (FR) procedures. Additionally, the board of directors (BoDs) is a critical internal governance body in charge of overseeing and guaranteeing the precision of FR (Al-Haddad & Whittington, 2019).

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The BoDs have an effective function in decreasing the agency issue among management and shareholders, according to Fama and Jensen (1983). Further, they contend that BoDs are legally required to protect shareholders' interest by ratifying, monitoring, rewarding, and evaluating managers' activities. Moreover, effective boards are able to exert control over managers which closes any opportunity the managers may participate in self-interested actions which do not align with the shareholder wealth maximization objective. One of these activities is certainly earnings management (Al-Haddad & Whittington, 2019).

According to Krishnan and Lee (2009), there may be a connection amongst the prevalence of earnings management (EM) and poor governance and the requirement for board specialists or expertise.

Researchers have also emphasized that the presence of the audit committee has been associated to improved standard of financial reporting (Read & Raghunandan, 2001), and that committees with expertise in auditing, finance, and managerial roles, including CFO and, or CEO, are susceptible to engaging in a smaller extent of earnings management (see Dechow, Sloan & Sweeney 1996; Beasley, Carcello & Hermanson, 1999). Additionally, prior accounting and auditing knowledge will improve the validity of their research and provide enhanced company FR (Hertz and Schultz, 1999).

According to research (see Abbott, Parker, Peters & Rama, 2007; Lin, Li & Yang, 2006), boards with accounting affiliations produce financial reports that are of a higher standard. Defond, Hann and Hu, (2005) also adds that having specialized knowledge helps boards be more effecient in assuring the accuracy of FR.

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As a result, a board that is well-balanced and knowledgeable could help a company in avoiding restatement (Arthaud-Day, Certo, Dalton & Dalton, 2006). According to Aier, Comprix, Gunlock and Lee (2005), businesses are less likely to restate results when their CFOs have a CPA qualification, an MBA, or more CFO experience.

In line with this, earnings management may have implications for firm performance as well as its going concern but effective corporate boards can mitigate this impact.

Statement of the Problem

The recent Report on the Observance of Standards and Codes (ROSC) published by the World Bank (2019) revealed that there exists pockets of earnings management in the annual reports published by listed institutions in Ghana. The practice of earnings management has existed for decades but the recent corporate scandals and financial sector instability have made it quite evident. In Ghana, issues were raised after Unique Trust Bank and Capital Bank Limited collapsed in 2017 due to controversies, which were then accompanied by the failure of other financial bodies about whether managers were reporting the true financial performance and position of their companies. In recent years, there have been significant low and high swings in the market's performance.

Notably, the Ghana Stock Exchange Composite Index (GSE-CI) indicated a dramatic decline of 25% in the performance of trading businesses from 2015 to 2017 (Ayisi, Wenfang, Adu-Gyamfi, Sampene & Charles, 2021). Ghana is still struggling to become a developed economy, despite projections from the World Bank indicating that it is rebounding from a sharp decline in

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GDP of 3.4%, or 55 billion US dollars, between 2014 and 2015 (Ayisi et al., 2021). Ayisi et al. (2021) also adds that some non-financial companies listed on the GSE may participate in earnings management (EM). This may be accomplished through related party transactions, the manipulation of expenses, reserves and provisions, as well as the timing of transactions. These may be as a result of lax legal enforcement, which leaves leeway for businesses' to manage earnings underlying financial success to be used as a solution. These recent increase in earnings management practices has also led to ambiguity among various stakeholders as to the true state of the firm's performance (Wenfang & Ayisi, 2020).

Regardless, the empirics on the linkage between EM and performance is limited. Globally, some extant works of literature have examined the connection between earnings management and performance, but have focused on the financial sector. This is somewhat worrying because the issue of discretionary accruals is subjectively measured for financial firms (Mbir, Tackie, Agyemang & Abeka, 2020; Kukah, Amidu & Abor, 2016). In Ghana, some studies have investigated the antecedents of EM for non – financial firms. For instance, currently, Mbir et al. (2020) explored the influence of IFRS compliance and corporate governance on EM. Conversely, the study did not investigate the implications of EM on financial performance. The absence of adequate empirics on the connection between EM and financial performance in the context of listed non – financial firms in Ghana has created a gap. To fill this gap, this study examines how earnings management affects several measures of a company's financial performance.

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Moreover, these studies that seek to examine the phenomenon do not probe into the function of corporate governance mechanisms. This is as a result of the variances in corporate governance procedures can matter for the extent to which managers may be able to manipulate financial statements. Moreover, corporate governance procedures can be a useful tool in maintaining financial reporting quality (Al-Haddad & Whittington, 2019). Corollary to this, the present empirical discussion will explore the moderating role of board expertise in the relationship between earnings management and firm performance.

Purpose of the study

The purpose of this study is to examine the impact of earnings management on the financial performance of listed non – financial companies on the Ghana stock exchange in Ghana. Precisely, the study seeks to:

Research objectives

1. Determine the effects of earning management on return on asset
2. Examine the effects of board expertise on return on asset
3. Assess the moderating role of board expertise in the relationship between earnings management and firm performance (ROA).

Research Hypotheses

1. H_0: Earnings management has no significant effect on the return on asset of listed non -financial companies in Ghana.
2. H_1: Earnings management has a significant effect on the return on asset of listed non -financial companies in Ghana.
3. H_0: Board expertise has no significant effect on return on asset.
4. H_1: Board expertise has a significant effect on return on asset.

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5. H_o: Board expertise does not significantly moderate the relationship between earnings management and return on asset.
6. H_1: Board expertise significantly moderates the relationship between earnings management and return on asset.

Significance of the Study

This study's significance is seen in three perspectives: knowledge, research and policy.

Knowledge wise, this study would help to understand and conceptualize earnings management and how board expertise works in the mitigating the association among EM and financial performance.

This may aid readers and researchers to regard the function of board expertise in the performance of a company.

Further, this discourse will broaden the understanding on financial performance and EM and contribute to studies, particularly as it pertains to companies listed on the GSE. This discourse will add immensely to gap and literature by presenting evidence from a developing country, Ghana, specifically non-listed firms on the GSE.

This would help other researchers to draw evidence in support of their findings and claim.

This study may help the individual policies of the firms. These firms can employ the empirics of this research to advance policies such as having boards with expertise in specific areas such as finance and accounting to be able to detect earnings when they exist. This would help these firms by ensuring that earnings management does not adversely influence the

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profitability and consequently their existence, which would benefit securities regulators like the Security and Exchange Commission.

Delimitations of the Study

Generally, this study's aim is to explore how earnings management affects listed non-financial enterprises' financial performance in Ghana. The study uses yearly data from 2012 to 2019. Data for the discourse were taken from the companies' yearly financial reports. The data involved fourteen Ghanaian listed companies. This indicates that companies founded in 2018 and after are not included in the research since it was not feasible to get a financial statement for the time period under consideration. Thus, firms that are financial are also not applicable and included in the discourse.

The study however was solely quantitative and employed explanatory design to explain the causal relation between the variables and to answer the questions of the study. Consequently, the study measured financial performance by one variable, return on assets.

The research did not consider other measures such as return on equity and etc. Earnings management were also measured by the discretionary accruals. The study introduced control variables to help cater for some of these delimitations.

Limitations of the Study

Even though the sample consisted of about 14 listed companies that are currently operational in Ghana, the secondary data analysis for the companies were limited. This is because it may not necessarily answer the questions of interest as opposed to primary data. Furthermore, because the dataset were already put up in a way that satisfies the owner, it is simple to restrict the

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study on a certain direction. Some company's published financial statements will not be accessible for all of the years, which will limit the number of years used in the study. The study's scope is again constrained by using just listed non-financial companies hence the results may not be extrapolated to include listed financial firms. The usage of data from a single country further reduces generalizability and eliminates the possibility of establishing comparisons with other regions of the world.

Organization of the Study

This research is grouped in five sections. Chapter one presented the background of the study and the problem statement. Further, the key objectives were drawn and their respective research questions that will aid in finding the objectives are identified. It also highlights on the purpose and significance of the research. Chapter two provides a detailed literature review, specifically the theoretical underpinnings and the empirical support. Chapter three states the methodology this study employs. Discussion and presentation of key findings are detailed in chapter four and lastly, the conclusions, recommendations from the study and suggestions for future research is presented in Chapter five.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

This section explores and draws insight from the existing studies on earnings management board expertise and financial performance of companies listed on the GSE. It mainly presents the theoretical and empirical justifications for the study. The Agency theory and positive accounting theory provide the theoretical justification that underpins this study. This section also provides a comprehensive review of empirical literature that supports the aims of the research.

Theoretical Review

The research is buttressed by two key theories - the agency theory and the positive accounting theory (PAT). These theories have been employed because extant literature have used it their arguments on earnings management.

Agency theory

Corporate governance, earnings management, and business performance all require an understanding of agency theory. This concept was propounded by the Jensen and Mecklin (1976). The philosophy is focused on comprehending the possible conflicting interest that may occur as people known as agents act on behalf of other people known as principals and how this conflicting interest may affect the performance of a business or organisation. The theory also links these opposing goals to the differing objectives between agents and principals, risk inclinations, and information asymmetries.

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Accordingly, Kamalluarifin (2016) adds that, the management of a business acts as a representative in order to safeguard the priorities of the shareholders (principals) from a theoretical standpoint. According to Ibitamuno, Onuchuku, and Nteegah (2018), agency theory seeks to decrease agency issues among managers (agents) and owners (principals) by bringing their interests into alignment.

Similarly, Cohen, Cornett, Marcus, and Tehranian (2014) posit that, modern businesses have a separation of ownership and control, which results to an information gap among business shareholders and corporate management. As a result, employers are more inclined to take advantage of the wealth of knowledge available by behaving in a way harmful to the wants of the owners. These actions might involve managing profits (Ujah, Brusa, & Okafor, 2017). Consequently, numerous authors claim that a direct association subsists between information asymmetry and EM (Sugiyanto, & Candra, 2019; Lasdi, 2013; Richardson, 1997). Furthermore, due to the utility maximization of the principal and agent, the agency theory divulge that the agents will not always behave in the principal's best interests (Yiadom, 2016). Thus, instead of achieving shareholders' expectations, managers will meet their own. Hence, the central theme of the theory hinges on the ownership separation from control. Since managers seek to maximize their interest, they are likely to influence earnings downward when their compensation is at its maximum (Ndung'u, 2017). Earnings management (EM) occurs when managers of a company possess the chance of making choices and decisions that affect reported earnings and takes advantage of those opportunities (Yiadom, 2016).

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Accordingly, ICAEW (2005) posit that, due to the knowledge asymmetry, corporate shareholders distrust agents; as consequently, efforts will be made to allay these worries by developing policies and methods. This is targeted at coordinating the interests of both parties, in addition to limiting the extent of information asymmetry and the range of agents' opportunistic behaviors (Ndung'u, 2017). Such procedures is the institution of corporate boards to safeguard their interests. In this regard, corporate governance can minimize earnings management because they can serve as watch dogs over managers. Further, they are responsible for ensuring financial reporting quality.

Upper echelons theory

The upper echelons theory originates from the thinking of Hambrick and Mason (1984). The theory avows that organizational outcomes can be predicted partly by the characteristics or attributes of the top-level management. Their cognitive orientation, information processing abilities, and the knowledge they possess affects their overall effectiveness and contribution to performance of the firm. Research conducted based on the upper echelon's theory have documented that board attributes contributes significantly to organizational performance. For instance, Kirca, Hult, Deligonul, Perryy and Cavusgil (2012) and Herrmann and Datta (2005) revealed that international experience and educational of corporate boards respectively can be proxies for their which ultimately impacts firms' behaviour.

Further, research also show that the educational level and international experience of members of the board count in the success of businesses (Kirca et al., 2012).

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Extending this theory, this study contends that the level of experience and education in accounting and finance of BoDs affects their ability to identify and employ punitive measures against discretionary accrual practices or earnings management. Thus, the degree by which mangers can manage reported earnings can be conditioned on the expertise of the board it reports to.

Positive accounting theory (PAT)

The Positive Accounting Theory (PAT) was created by Watts and Zimmerman in 1986 with the intention of describing and forecasting real accounting practices. A PAT tries to predict and explain the behavior of economic accounting. Normative theory is the polar reverse of PAT, and it involves making decisions on how organizations should or should not behave. The accounting methods selected and their effects are the main topics of the PAT. Three theories have been created and tested by researchers of the PAT: bonus plans, debt/equity hypotheses and political cost hypotheses (Watts & Zimmerman, 1990).

Positive Accounting Researchers have primarily proposed and tested three ideas. Bonus plans are employed because they are visible (Watts & Zimmerman, 1990). Managers with compensation programs are also more inclined to make accounting decisions that will boost reported earnings. Bonus programs do not always provide managers with the drive to boost earnings, they later contended. Healy (1985) also tested this hypothesis and concluded that managers do sometimes manage reported earnings to increase bonuses.

The Debt/Equity theory posits that the more a company's debt/equity ratio rises, the higher the chances that leaders will pick accounting policies that increase reported profitability since such companies are more likely to

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violate the debt covenant. Debt/Equity hypotheses were investigated by Dichev and Skinner (2002), who discovered that leaders strive harder to prevent violating the first debt covenant by choosing accounting methods that uphold debt covenant ratios. Such ratios may include interest cover ratios and this can affect profitability.

Finally, Watts and Zimmerman (1986) claim that, EM is a management strategy in which a commonly accepted accounting methodology is purposely used to manipulate a company's earnings (Dechow, Sloan, & Sweeney, 1995). Some stakeholders may be misled about the firm's success due to the modified accounting statistics, or the corporation may benefit from financing arrangements based on claimed financial data (Tahir & Nisar, 2009; Sambharya, 2011). This strategy is used only to achieve income smoothing, which is the act of balancing income and spending overtime to meet an already set target. The information of earnings in a business' financial accounts is a representation of the business' strength. Every business has compelling reasons to be seen as financially sound and stable. EM is used by managers to achieve this goal. They prepare attractive financial statements by utilizing the preference afforded by numerous accounting standards and rules.

Although EM causes financial numbers to be altered, it cannot be detected directly via financial reports. Sun and Rath (2010: p. 122) examine a variety of methods for measuring EM, including total or discretionary accruals, individual accruals, modifying accounting decisions, real activities, and earnings distribution. Discretionary accruals, which has been utilized often in studies, is the most prevalent technique.

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According to the Political Cost Hypotheses, larger corporations are more prone to use accounting practices that reduce stated earnings (Watts and Zimmerman, 1990). Jones (1991) looked into the Political Cost Hypothesis and discovered that businesses actively chose practices that bolstered their case for import protection.

The PAT therefore looks for elements that could explain why managers select a certain accounting policy or procedure. The management of non-financial companies could wish to inflate earnings to reach particular competitive benchmarks, gain hefty bonuses, or smooth results to comply with debt covenants (Yiadom, 2016) or rules. Long-term effects of this behavior include judgments that are incorrect because the informed balances in the statements are not true reflections of the real balances beneficial for investing and managerial choices. Extending the work of the PAT, the study further argues that boards that are not able to exert sufficient control over managers or leaders can be an opportunity for firms to manipulate their financial results. As a result, the expertise of board of directors in finance and accounting issues can be an opportunity or stumbling block for leaders to alter earnings.

Conceptual Review

Earnings management (EM)

EM is described by Lev (1989) as the management of earnings, which are the most significant component of financial statements (mostly referred to as the bottom line or net income).

Lev explains that they display the degree to which a corporation has involved in value-added activities and works as an indicator to assist in the direct distribution of assets in capital markets.

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Cyril, Ogbogu, and Emeka (2020) also define EM as making ethical and legal management decisions and reporting with the goal of generating stable and reliable financial results. Companies that do not control their results as much are more likely to offer accounting earnings that are permanent.

Earnings management (EM), according to Warglien and Sacco (2010), is a method whereby managerial decisions based on rationalization, supposition, and even deception are used by firm decision-makers to display earnings numbers in financial statements. Managers generally do so in order to advance their own interests while attaining organizational objectives in an effort to show accountability to the company and its interested parties (Warglien, & Saccon, 2010). Abbadi, Hijazi and Al-Rahahleh (2016) define EM as the practice of managers manipulating financial reports by employing their prudence in FR and transaction structure. Either to mislead interested parties about the organisations actual financial performance or to alter the outcomes of agreements that hinge on the stated accounting figures (Healy and Wahlen (1999).

EM is further described by Fischer and Rosensweig (1995) as decisions made by divisional leaders that help to raise (reduce) actual reported earnings of a business devoid of a commensurate rise (reduction) of the division's long-term financial viability. Gajevszky (2014) argued that a managers motive to deceive stakeholders to guarantee that organizational financial goals have been met appears to arise from the accounting data being manipulated as a result of standard operating procedures. However, to present statements that do not accurately represent financial reality and engage in unlawful financial statement manipulation are not the same as earnings

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management. These actions are sometimes referred to as "cooking the books" since they entail falsifying financial outcomes (Kothari, 2001). EM affects performance and even has the potential to reduce shareholder wealth since it includes the intentional alterations of financial data so as to sway parties to acquire legal advantages that mainly rely on accounting statistics or to discover the actual financial status of a corporation (Abbadi, Hijazi & Al-Rahahleh, 2016).

Stakeholders can learn about performance via the financial report that the organization's directors have created. Determining if a report from a firm's financial statement is accurate or whether if it accurately portrays a genuine image of an organization is getting more difficult and ambiguous. Between managers and external users of information, there is an information gap. This gap allows managers to prepare and report accounting transactions at their discretion for personal gain when they want to present their accounting reports in the best light for example, by making a large one-time provision in years where larger amounts underpinning earnings were produced (Ajide & Aderemi, 2014). EM may entail taking advantage of chances to adjust the earnings amount shown on the financial statements by making accounting decisions. Since accounting decisions have the ability to affect the transactional timing and the measures utilized in financial reporting, they have the ability to affect profitability. A company adopting last in, first-out techniques of accounting inventories, for instance, it might enhance net income in instances of increasing prices by deferring purchases to future periods.

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Similarly, a relatively smaller change in the measurement for debtors can largely influence net income.

The management of a firm's earnings toward a predetermined goal is thus known as earnings management. A preference for more consistent profits can help achieve this goal, in which case managers are considered to be doing income smoothing (Copeland, 1968). Consequently, opportunistic income smoothing may indicate lesser risk and raise a company's value. The necessity to use the degrees of specific accounting ratios owing to debt concerns, the weight to sustain expanding earnings, and the desire to surpass analyst goals are further reasons for managing earnings.

According to Adegbite (2012), African nations lack the capacity to adopt the kind of corporate governance found in industrialized nations owing to a number of issues, including corruption, poor legal and judicial systems, and absence of competent human resources. Ghana offers an excellent chance and a beneficial environment for analyzing the efficiency of board features in identifying and avoiding earnings management behaviors since it is a small developing market with thorough corporate governance standards, but it is unable to enforce compliance (Agyei-Mensah & Yeboah, 2019).

Ineffective corporate governance in Ghanaian organizations has resulted in the failure of these corporate organizations and their appalling performance (Agyeman & Castellini, 2015). According to Agyeman et al. (2013), the main issue is the lack of active instruments, such as board expertise, for their effective implementation. Ghana has appropriate rules and regulations regarding corporate governance.

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As a result, Agyei-Mensah, Yeboah, & Agyei-Mensah, 2019) contend that Ghana has poor corporate governance procedures.

According to Mensah (2002), Ghana may have relatively inactive CG structures like board expertise, which would allow management to engage in EM practices. These mechanisms are meant to guarantee that company managers operate in the finest interests of shareholders and other stakeholders. IAF's actions in Ghana might not be as robust as they are elsewhere, according to a 2005 analysis by the Centre for Policy Analysis - Ghana (CEPA).

Methods of earnings management

Since there exists a variety of estimations to consider whilst developing periodic financial statements, earnings management also considers it different forms.

Income Smoothing

Mathews and Perera (1996) defines income smoothing as the technique of lowering stated earnings of a company during boom periods and postponing them to loss generating periods in order to show a stable revenue stream across time, one reason managers prefer it is because it suggests a steady, robust, and expanding firm. Additionally, under this technique, when managers and owners share profits, the managers benefit more. The two categories of income smoothing are real and artificial (Ujah & Brusa, 2011). Real smoothing entails transferring certain expenses, like advertisement, to the following period, but artificial smoothing entails moving funds through a variety of policies from one period to another, example, the depreciation method.

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Window Dressing and Secret Reserves

Olatunji and Fakile (2012) assert that window dressing and secret reserves entail changing a company's accounts to have the most impact on its financial situation as of a specific date. Any element on the balance sheet or profit and loss statement might be the focus of this adjustment. For example, a business could seek to boost sales by making a transaction to an associated business. This often mitigates the effect of such a provision when it actually comes into force on the profit. A good example is provision for bad debt.

Off Balance Sheet Financing

In this instance, a business' overall debts rise yet the extra borrowing is not reported in the company's statements (kang & kim, 2011). This suggests the company is more geared than it really is to facilitate it to acquire more funding. In these instances, the low geared subsidiary can lend money to the highly geared parent and the intercompany loans are annulled after consolidation.

Pooling Versus Purchases Methods

When two companies come together using the accounting approach called pooling, no new goodwill is produced, which improves forthcoming profits since goodwill ought not to be amortized. Furthermore, the shareholders get a distribution of all pre and post acquisition reserves and earnings. As a result, pooling of interest may be a useful tool for managing profits in several kinds of takeovers. Since goodwill may be formed and its amortization would lower earnings in forthcoming years, the purchase approach is unpopular. Additionally, the company solely distributes its post-acquisition income to stockholders (Uwuigbe, 2013).

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Board expertise

Fama and Jensen (1983) proposed that, the BoDs are ultimately in charge of deciding how best to allocate and utilize the company's resources. Consequently, the board is at the pinnacle of the governance structure in the contemporary business. According to Adams and Ferreira (2007), the board has two important roles in increasing value for shareholders: firstly, it oversees and controls owner-management conflicting incentives; and secondly, it counsels the Chief Executive Officer and other executives on how to increase company value. Experts are therefore better equipped to interact with markets than their nonfinancial colleagues as specific knowledge and expertise of interest sophisticate (Custodio & Metzger, 2014).

Functional knowledge and firm-specific knowledge are two categories of essential capabilities that, Hambrick & Manson (1984) claim are required for the board of any company. Finance, accounting, law, marketing, and economics are all examples of functional knowledge (Carmeli, 2006). Firm-specific knowledge, on the other hand, implies the specific knowledge about the firm and how it operates (Hambrick and Manson, 1984). Conger & Ready (2004) and Kor & Sundaramuthy (2009) also claim that Bods with rational financial and accounting expertise are better equipped to provide internal control system procedures to regulate business performance. According to Guner, Malmendier, & Tate (2008), it is crucial for members to grasp accounting and financial concepts since this will improve board supervision and work in the shareholders' best interests. According to Wan Yusoff & Armstrong (2012), accounting expertise is the most crucial competence.

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Financial performance

Financial performance is a totally discretionary measurement of how successfully a business can employ funds from its key line of operations to make profits (Kenton, 2019). Additionally, the concept is used to describe a general measure of a business' long-term economic stability. Financial performance is compared by analysts and stakeholders to see how related businesses perform within the same industry or across several markets. In that sense, evaluating financial performance can be done in a variety of ways, but they ought to be considered concomitantly. Together with total unit sales, one may also utilize items such as operating income, cash flow from operations, and revenue from activities.

Financial results, according to Rosyafah (2021) is done to determine how accurately and correctly a firm has applied financial implementation regulations, such as by producing financial reports that adhere to IFRSs or GAAP standards. Therefore, financial performance serves as an assessment of a company's financial condition at a precise period. Its purpose is to evaluate a company's financial statement-focused success (Ubesie et al., 2020).

Ghana Stock Exchange

The GSE, located in Accra, is Ghana's principal and main stock market. Because it facilitates the trading of securities, its economic impact cannot be underestimated.

The exchange was established in 1989 as a private guarantee company responsible with managing and upholding an open market for securities.

In 1990, it opened for business with 11 companies and 4 brokerage companies.

The market has had several phases of development and expansion, such as the

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1994 launch of the Automated Trading System (Nabieu, 2014). In order to facilitate the trade of various income securities, the market also launched the Ghana Fixed Income Market (GFIM) (Ofori-Atta, 2018). The regulatory and operational aspects of the GSE were divided in 2015. The Ghana Alternative Market (GAX) rules were subsequently created to improve the listing criteria and governance standards of businesses (Eduboah, 2018).

The GSE all-share-index (GSI), a weighted index, is primarily used to track GSE performance. There are various limitations on portfolio investors who are not residents of Ghana, notwithstanding the fact that non-resident investors are permitted to transact in market-listed securities. without first receiving authorization from exchange control (Kyereboah-Coleman & Agyire-Tettey, 2008). According to Kereboah-Coleman and Agyire-Tettey (2008), the GSE is administered by a board that includes representatives from certified trading associates, listed businesses, banks, insurance firms, the money market, and the public at large.

Since its incorporation, the performance of the GSE has fluctuated, recording both periods of ups and downs (Kyereboah, Coleman, & Agyire-Tettey, 2008). However, the good performance has outweighed the bad performance (Sampene, Li, Cui, Pearl, Fredrick, Robert & Ayisi, 2021). For six years, the market saw declining returns. 2009 had the worst performance in the history of the securities market, with a negative return of -46.58%. The GSE, on the other hand, had strong returns year over year, with the positives average at 48.89%.

The most recent increase in market returns was seen in 2013, when average market returns reached 78.81% higher than returns on the fixed

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income market (Sampene et al., 2021). The highest market returns in the exchange's history were recorded in 2003, at 154.67%. Throughout the research period, the Ghana Stock Exchange Composite Index exhibits instability (Sampene et al., 2021). It crested its peak in 2003, after which there was an abrupt drop in 2009. In comparison to prior years, it stabilized a little bit between 2010 and 2019 (Sampene et al., 2021).

Empirical Review

Earnings management and performance

EM is a tool that may be used to affect firm performance to give excellent reports to corporate boards and investors. Managers grudgingly reveal earnings that fall short of analysts' expectations since it has a detrimental effect on the business' performance and, potentially, its market value (Cohen & Zarowin, 2010). When a company's performance is poor, earnings-increasing techniques are used to manipulate earnings upwards; when a company's performance is outstanding, income-reducing approaches are employed to influence earnings downwards.

Businesses with important initiatives and decent investment potential, according to Linck, Netter and Shu (2013), employ discretionary accruals strategies to publicize positive prospects and generate cash for investing

Mostafa (2020) investigated if lower-performing companies operate their earnings differently than higher-performing companies.

In comparison to high-performing organizations, he revealed that low-performing enterprises expand their earnings management strategies to improve performance. Managers may alter results to safeguard their holdings

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from losses during periods of low performance, which is common in organizations with large accruals (Cornett, McNutt, & Tehranian, 2009).

Lee, Li, and Yue (2006) employed 67 non-financial enterprises to investigate the link amongst EM and FP of the firms from 1988 to 2001. The data show that companies that performed better had higher reported earnings. Companies that did better had higher reported earnings, according to the statistics. They however, found an inverse relationship between reported earnings and predicted growth. Further, Tabassum, Kaleem, and Nazir (2015) revealed that EM had an inverse association with performance in Pakistan's manufacturing industry from 2004 to 2011.

Using the Jones accrual model, Gill et al. (2013) explored EM and firm value among manufacturing firms in India. Findings from the study reveal that EM is more widespread and has a variety of implications on ROA. Nuryaman (2013) observed the effect of EM on stock returns and the function audit quality plays as moderator in the operating performance of post-IPO enterprises in 2010. A sample of 149 manufacturing firms publicly traded on the ISE. The research revealed that EM had an inverse impact on stock performance but the quality of the audit minimized the negative relationship. Also, Taylor and Xu (2010) revealed that companies that were recognized as engaging in EM did not encounter any drop in operating profits afterward.

The impact of EM on the performance of energy firmslisted on the VSE was investigated by Khuong, Ha, and Thu (2019).

The research revealed that EM has a direct influence on firm performance. In addition, Wenfang, and Ayisi (2020) explored the impact of real EM on the

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profitability of non-financial companies listed on GSE. Their findings revealed that the selected non-financial firm manage their earnings upwards.

Board expertise and firm performance

Smith, Smith, and Verner (2006) and recently Arumona, Erin, Onmonya, and Omotayo (2019) assert that studies within the corporate governance literature on financial education is nascent. Previously, Agrawal and Chadha (2005) came to the conclusion that companies with independent directors who have backgrounds in accounting or finance are likely to increase earnings than companies with non-accounting or non-finance backgrounds. Likewise, Haniffa and Cooke (2002) found that board members who possess financial knowledge have the potential to increase the performance of the companies they oversee.

Boadi and Osarfo (2019) investigated the influence of members' educational background diversity on the performance of the banking sector in Ghana. Using 28 banks ranging from 2001 to 2016 and the SGMM, the study found evidence to support a significant positive impact of members with a first degree on performance of the sampled banks.

Arumona, Erin, Onmonya, and Omotayo (2019) assessed the impact of members' financial education and performance. The research employed six listed businesses in the healthcare sector of Nigeria from 2011 to 2017.

The study proxies board financial education against bachelor's degree, postgraduate degree, and professional qualification in finance. Further, performance was measured using the ROA.

Findings from the fixed effect model revealed that the proxies for financial education have a direct and substantial connection with ROA.

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Earnings management, board expertise and performance

The current research argues that the impact of EM on the performance of the businesses can be conditioned on the quality and presence of corporate governance mechanisms. This is due to the fact that corporate governance performs a crucial part in safeguarding shareholders' funds by seeking to eliminate managers' self-interested and fraudulent behaviour (Man & Wong 2013). Cohen, Krishnamoorthy, and Wright (2002) argue that a very important duty performed by corporate governance mechanisms is the capability to guarantee the quality of the FR procedure. Moreover, the BoDs constitutes a crucial internal governance mechanism with responsibility for managing and ensuring financial reporting quality (Al-Haddad & Whittington, 2019).

In the perspectives of Meckling (1976) and Fama and Jensen (1983), the Bods play an active part in minimizing the agency problem between managers and shareholders. Further, they contend that board of directors are legally required to protect shareholders' interest by ratifying, monitoring, rewarding, and evaluating managers' activities. Moreover, effective boards are able to exert control over managers which closes any opportunity the Managers may need to participate in self-interested actions which are not consistent with shareholder wealth maximization.

Conceptual Framework

The framework as shown in summarizes the key objectives of the study. First, EM is proxied by discretionary accruals and performance is scaled by ROA. Second, the study investigates the impact of board expertise (the ratio of total members with finance and accounting experience and or education).

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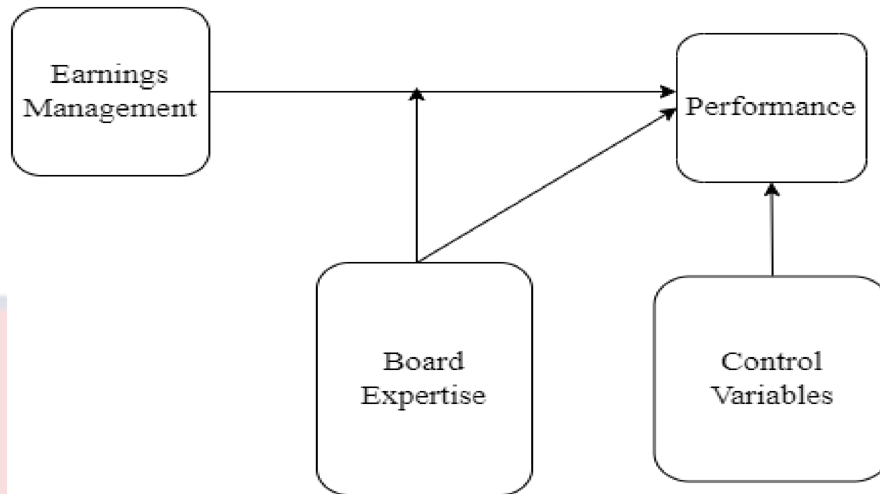

Figure 1: Conceptual framework

Source: Author's own construct

Chapter Summary

This section provided a review of relevant literature. Theoretically, this research is underpinned by the agency theory, upper echelon's theory, and PAT. A review of relevant literature also revealed that gaps exist in the extant literature as no study examines the moderating role of board expertise in the association between EM and firm performance.

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CHAPTER THREE

RESEARCH METHODS

Introduction

This section describes the method employed for this discourse. This chapter deals with the systematic technique employed to explain the roles of earnings management and board expertise on firm performance. To be precise, this chapter begins with the paradigm for this research, research design, research approach, source, and measurement of variables. The chapter also presents the model specifications and justifications as well as the method of data processing and analysis.

Research Design

Depending on how researchers ask questions, construct a hypothesis, and express its purpose, the study design could be descriptive, exploratory, or explanatory (Saunders, & Lewis, 2018). This study employs an explanatory research design due to the nature of the objectives which sought to ascertain cause and effect. This study seeks to identify the effect a variable has on another. Explanatory design is also known as causal research design in certain guides (Hair, Sarstedt, Ringle, & Mena 2012). The task of the researcher is to identify such reasons and assess how much they contribute to such outcomes (Ghauri, Grønhaug, & Strange, 2020). Accordingly, Saunders and Lewis (2018) posit that, the aim of explanatory research is to explicate the causal association between constructs.

Research Approach

Every study requires a specific research approach. According to Saunders and Lewis (2018), the research approach is the overall configuration

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of the research question/hypothesis and what types of subjects are obtained, from where and how to interpret them to produce a response or results to the hypothesis/questions. Creswell (2014) also identifies three key study methodologies. There exists three key types: qualitative, quantitative, and mixed. Constructs are scaled quantitatively in this discourse; thus it employs the quantitative approach. This discourse takes the quantitative approach because the discourse employed quantitative data in the analysis. Also, the research aimed at explaining the causal associations between the constructs making it appropriate to adopt the quantitative approach.

Population

This study looks at the link between EM and the performance of non-financial enterprises listed on the GSE. A sum of 42 listed firms are on the Ghanaian stock exchange.

Sampling Procedures

This research ignores all financial companies (11) because they differ in terms of reporting and regulatory requirements, companies not listed on the exchange (14), companies that do not have full reports from 2012 to 2019 (2), and firms that do not trade in cedi (1).

This ensures that the data will be accessible during the research duration. The remaining businesses in this regard are 14 non-financial businesses listed on the exchange. Since the global financial crisis and the coronavirus epidemic might influence businesses' decisions to manipulate earnings and consequently, the financial performance of the firms as well, the years 2012 to 2019 are chosen to cover those times.

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Thus, firms financial reporting behavior in times of crisis may differ, which may confound the relationships between the variables. Moreover, financial firms are not employed because their asset base are different and financial firms operate in a unique regulatory and environment and reporting requirement. Non-financial firms are also easy to compare as opposed to financial forms. They are known to have greater impact on the economy as well.

Data Collection Procedures

Secondary annual data will be employed. Their annual reports will be used as the source of information on company characteristics and performance.

Data Source and Description

The study used Return on Assets (ROA) to represent firm profitability to examine the research objectives. These variables are the most used variables in extant literature to measure profitability of firms (see, for example, Wenfang, & Ayisi, 2020; Mostafa 2020; Gill et al., 2013). The main independent variable for this study is the discretionary accruals which are also predominantly used in the extant literature to proxy earnings management (Wenfang, & Ayisi, 2020; Ding, Li, & Wu, 2018). The study also acknowledges that other factors other than earnings management can influence the profitability of the non-financial listed firms and therefore controls for, firm size, leverage, and liquidity (Alareeni, 2018; Wenfang, & Ayisi, 2020).. These reports were accessed through the annual report Ghana website (annualreportsghana.com) which provides access to the financial reports of companies listed on GSE.

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Estimation Procedure

Following extant studies of Djebali, and Zaghdoudi (2020), Hussain, Ahmad, and Hassan (2019) and Al Farooque, Buachoom and Sun (2019), the study employs a dynamic panel estimation technique. This is because a firm's performance is affected by past year's behaviour and it is dynamic. Past year profits will mean that funds will be available to finance current year's investment opportunities.

Moreover, the study considers the reverse causality and control for endogeneity as well as firm specific effect with the dynamic specification. Therefore, this discourse utilizes the two-step system GMM estimators (Blundell, & Bond, 1998) with robust standard errors. This is effectual in comparison to the normal GMM (Baltagi, 2005). In addition, the dynamic GMM is very effective when the cross-sections are greater than the time series (N>T). The study's 8-year time frame (from 2012 to 2019) is lower than the 14 businesses considered.

The GMM estimator uses a number of instrumental factors to resolve the endogeneity issue. Additionally, it takes heteroscedasticity into account and provides accurate estimates even when there is heteroscedasticity. Nonetheless, the consistency of the instruments affects the stability of the GMM estimator. There are two specification tests used: First, the null hypothesis that all the instruments are valid is tested using the Sargan/Hansen test of over-identifying limitations. Secondly, the study has to examine the null hypothesis of no autocorrelation, particularly at the second order (AR2). The study must fail to reject these tests.

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Model Specification

The study specifies the model based on the two-step system GMM below:

$$ROA_{it} = \alpha_{it} + \delta ROA_{it-1} + B_1 EM_{it} +$$

$$B_2\, BE_{it} + B_3\,(EM * BE)_{it} + B_3 SIZE_{it} + B_4 LIQ_{it} + B_5 LEV_{it} + u_i + \mathcal{E}_{it}$$

Where

ROA is the Return on Asset,

ROA_{it-1} is first year lag of Return on Asset.

EM refers to earnings management. BE means board expertise.

$EM * BE$ is the interaction of earnings management and board effectiveness.

LIQ represents liquidity and

LEV means leverage.

Notably, the firms are represented by i (i = 1, 2, 3,…,10), 14 firms; t denotes time from (t = 1, 2, 3, …, 14), 8 years; u unobserved firm–specific effect and ε is the error term presumed to be serially uncorrelated.

Measurement of Variables

This section describes the measurement of the exogenous, endogenous and control variables employed in this study.

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Table 1: Measurement of Variables

Variable	Measurement
Dependent Variables	
ROA	Operating Profit divided by Total assets
Independent Variable	
Earnings management	Total accruals less non-discretionary accruals
Board Expertise	Proportion of total members on the board with either experience or education in accounting or finance
Control Variables	
Firm Size	Natural logarithm of total assets
Leverage	Book value of debt ÷ total assets
Liquidity	Current Assets ÷ Current Liabilities

Source: Field Data (2021)

Computation of Earnings Management

According to Dechow, Sloan, and Sweeney (1995), accruals may be discretionary or not. Regulations, organizations, and the specifications of the relevant financial reporting standards determine non-discretionary accruals.

Management, however, has sole control over the discretionary accruals and can be inclined to abuse them. In order to find EM, discretionary accruals are typically used as a metric (Wenfang & Ayisi, 2020).

Consequently, the extent of accrual EM for all chosen businesses are calculated by the mean value of discretionary accruals. To start with, the discourse utilizes the modified Jones (1991) model to regress parameters γ_1, γ_2, and γ_3 to determine the total accruals (TAC)

$$\frac{TAC_{It}}{TA_{it_{-1}}} = \gamma_1 \frac{1}{TA_{it_{-1}}} + \gamma_2 \frac{(\Delta REV - \Delta REC)}{TA_{it_{-1}}} + \gamma_3 \frac{1}{TA_{it_{-1}}} + \varepsilon_t \quad (5)$$

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The discourse scales all constructs by starting year's total assets to control for heteroscedasticity. Additionally, the research measures $\hat{\gamma}_1, \hat{\gamma}_2$, and $\hat{\gamma}_3$ which correspond the parameters of the non-discretionary accruals (NDA)

$$\frac{NDAC_{It}}{TA_{it_{-1}}} = \hat{\gamma}1\frac{1}{TA_{it_{-1}}} + \hat{\gamma}2\frac{(\Delta REV_{it} - \Delta REC_{it})}{TA_{it_{-1}}} + \hat{\gamma}3\frac{PPE_{it}}{TA_{it_{-1}}} \quad (6)$$

Lastly, the discourse gets the discretionary accruals (DAC) by subtracting the non-discretionary accruals from total accruals and the non-discretionary.

$$DAC_{it} = \frac{TAC_{It}}{TA_{it_{-1}}} - \frac{NDA_{It}}{TA_{it_{-1}}} \quad (7)$$

Note,

TAC = Total accruals

TA = Total assets

ΔREV = Change in Revenue

ΔREC = Change in Trade Receivables

NDAC = non-discretionary accruals

PPE = Property Plant and Equipment

DAC = Discretionary accruals

ε_t = Error term

Chapter Summary

This section primarily explained the methods employed to study the role of earnings management and financial performance of the firms. This research employed the two-step system GMM to control for endogeneity that may be present in the setup on a dataset obtained from annual reports of companies listed on the Ghana Stock Exchange (GSE) from 2012 to 2019.

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CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This section generally provided the results of the study and discussed the results. Specifically, it began with a summary statistic of the dependent variable (profitability measures), the independent variable (discretionary accruals), and the set of control variables (liquidity, size, and, leverage). Additionally, the discourse presented the findings of the pairwise correlation among the constructs. Lastly, the section presents the regression findings of the two-step system GMM.

Summary Statistics

Table 2 provides the descriptive statistics on the dependent variable, the independent variable, and the set of control variables.

Table 2: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
ROA	.1053	.318	-0.0054	2.781
BE	.778	.141	.6	1
EM	2.045	12.987	-1.876	114.657
Leverage	.932	.118	.746	5.785
Firm Size	7.667	1.501	4	9
Liquidity	2.2111	0.105	1.04	4.625

ROA-Return on Asset, BE-Business Expertise, EM-Earnings management

Source: Field Data (2022)

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From Table 2, it can be inferred that the average firm return on asset (ROA) is 10.53% from 2012 to 2019 for the 14 listed non-financial firms. This implies that on the average, the firms have been profitable over the years. Higher ROA may evidence that the firms employ a large asset base and gearing.

Quite predictably, firm size has highest average followed by firm liquidity and earnings management. It can further be inferred that the firms employ high levels of gearing, almost approaching 100% and are highly geared too. Overall, it can be observed that on the average, the firms have been recording higher profits. While not definitive, it can be predicted that even if firms were to manage earnings, it would be an upward adjustment to the earnings, evidenced by positive values of the discretionary accruals.

Pairwise Correlation Analysis

The study also provides the pairwise correlation matrix in Table 3. The correlation analysis serves two key purposes. First, it provides a preliminary analysis of how the variables employed in the study are related. Second, it aids in the assessment of multicollinearity in the model, whose presence can make the estimates unreliable. The study presents the Pearson correlation coefficients.

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Table 3: Pairwise correlations

Variables	ROA	**BE**	EM	Leverage	Firm Size	Liquidity
ROA	1.000					
BE	**0.125****	**1.000**				
EM	0.177***	**0.043****	1.000			
Leverage	-0.106*	**-0.034****	0.106***	1.000		
Firm Size	0.209***	**0.103*****	-0.782***	0.567***	1.000	
Liquidity	0.331***	**0.234*****	-0.640**	-0.312**	0.411***	1.000

*,**,*** represents significance levels at 1%, 5% and 10% respectively. EM represents earnings management measured by discretionary accruals. ROA-Return on Asset, BE-Board Expertise, EM-Earnings management
Source: Field Data (2022)

The Pearson correlation coefficients show a significant positive association between discretionary accruals (EM) and ROA. In addition, aside from leverage, all the exogenous variables exhibit a direct relationship with the profitability measure. There is a strong and favorable connection between EM and board expertise. It can also be inferred that the correlation among all the exogenous variables is low and does not give rise to concerns of multicollinearity. This is because the pairwise correlation among the independent variables are all below 0.9. This is the threshold posited by Kennedy (2008) to give rise to concerns of multicollinearity.

Regression Results from the System GMM

The regression results of the two-step system GMM are provided in Table 4. Model 1 presents estimates with ROA as the dependent variable.

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Table 3: Effect of Earnings Management on ROA

Dependent Variable	Model 1 ROA	Model 2 ROA
L. ROA	0.349***	0.309***
	(0.0167)	(0.0189)
EM	0.398***	0.293***
	(0.106)	(0.023)
BE	0.6611***	0.228***
	(0.208)	(0.0377)
EM*BE		-0.631***
		(0.0101)
Leverage	-0.718***	-0.288***
	(0.0755)	(0.0355)
Firm Size	0.0289***	0.0242*
	(0.00592)	(0.0121)
Liquidity	0.535***	0.269***
	(0.0878)	(0.0494)
Constant	-14.83***	-7.505***
	(3.937)	(2.143)
AR(1)	0.032	0.038
AR(2)	**0.106**	**0.114**
Sargan OIR	**0.115**	**0.211**
Hansen OIR	**0.351**	**0.133**
DHT for Instruments		
(a)GMM instruments for levels:		
Hansen test excluding group	**0.369**	**0.196**
Difference (null H = exogenous	**0.816**	**0.724**
(b)iv(Time, eq(diff)):		
Hansen test excluding group	**0.365**	**0.144**
Difference (null H = exogenous)	**0.250**	**0.207**
Instruments	64	64
Groups	45	45
Firms	14	14
N	140	140

Note: *Standard errors in parentheses* *, ***and,* *** *represents 10%, 5% and 1% significance levels respectively. N is the number of observations.* Again, AR represents Arellano-Bond; and lastly OIR represents test for Overid Restrictions. *ROA-Return on Asset, BE-Board Expertise, EM-Earnings management*

Source: Field Data (2022)

Table 4 presents the two-step system GMM estimates on the influence of EM and performance. The findings show that EM has a significant positive impact on ROA.

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Further, the findings indicate that the lag of the profit measure is also positive and significant, signifying that prior profits affect current level of profitability. At a significance level of 1%, the study also reports a negative impact of leverage on the firms' profits while size and liquidity had a positive impact on the profits of the firms with varying levels of significance.

Discussion of Empirical Findings

Model Diagnostics

Although the GMM estimator solves the endogeneity problem by utilizing a combination of instrumental variables and also provides consistent estimates in the presence of heteroscedasticity, the efficacy and consistency of the GMM estimator is dependent on the validity of the instruments. Two specification tests are employed: Primarily, the Sargan/Hansen test of over-identifying restrictions tests the null hypothesis that all the instruments are exogenous and thus the instruments are valid. Secondly, the study has to investigate the null hypothesis that error term of the differenced equation is not serially correlated specifically at the second order (AR2).

From the diagnostics shown in Table 4, the p-values for the Hansen and Sargan OIR are greater than 0.1. Therefore, this research fails to reject the null hypothesis that the instruments are valid. Secondly, the study investigates the null hypothesis that error term of the differenced equation is not serially correlated at the second order (AR2). The AR2 as shown in Table 4 also has the p-value above 0.1 Thus, the discourse accomplishes that there is not serial correlation. The significant positive effect of the lag of the profitability measure on current profits show that the system GMM is an efficient estimator and thus the findings can be relied upon.

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This is because static models will not present consistent estimates in the presence of persistence in firm profits.

The Effects of Earnings Management on Return on Assets

H_0: Earnings management has no significant effect on the return on asset of listed non -financial firms in Ghana.

The study refutes the first hypothesis that EM has no significant impact on ROA.

This study documents a significant positive effect of EM, proxied with discretionary accruals on the performance of the listed firms. The study finds the influence to be significant at 1%. The coefficient shows that a percentage increment in the discretionary accruals of the listed firms increase profits by 39.8%. The results imply that management of the listed non-financial firms use discretionary accruals to enhance ROA of the firms. This could mean that managements' basis for increasing discretionary accruals would be to increase profits and this can be in line with the opportunist viewpoint of EM. The positive relationship mean that management of the listed firms may manipulate earnings to meet profit targets and incentives structures. Thus, management of the listed firms' incentives to meet bonus targets could explain the positive influence among EM and ROA of the companies.

Consequently, the selected non-financial firms may attempt to manipulate earnings so as to achieve their contractual benefits and targets set for them. From the information perspective, since the firms are listed on the GSE, it can also be case that the listed firms may tend to use discretionary accruals to paint a positive view of the performance (profits) of the business to investors. The positive relationship documented corroborates with the findings

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of (Mostafa, 2020; Lee, Li & Yue, 2006; Gill et al., 2013; Taylor and Xu, 2010; Khuong, Ha & Thu; 2019; Wenfang & Ayisi; 2020). Specifically, the latter study argued that non-financial firms in Ghana tend to manage earnings upwards.

Effect of Board Expertise on ROA

H_0: Board expertise does not have any significant effect on return on asset.

The study again refuses the hypothesis that board expertise has no significant effect on ROA. At a 1% significance level this study reports that expertise has a direct impact on performance. That is, an inrement in the level of expertise of directors may increase return on asset by 66.1%. This implies that the skills and experience of board members are associated with ROA.

Successful boards are more likely to be intelligent, educated, and experienced, which is more important for board expertise, significantly resulting in improved directors' cognitive skills, improved performance and financial gains (salehi et al., 2018). As a result, it is anticipated that Bods with more educated would be able to recognize, assess, implement, and suggest more adequate remedies for performance concerns (Ittonen, Vähämaa, and Vähämaa, 2013). Additionally, management performance in matters of finance, marketing, accounting and legal concerns may be better supervised as a result of one's education and skill in the accounting profession, positively affecting profitability (Vo & Phan, 2013).

Companies with board experience and expertise will also help directors complement one another and support those who have opposing views on a particular issue, which could help to balance one another.

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This will increase the efficacy of the board in performing tasks, overseeing managers, and providing consultation (Nicholson, & Kiel, 2004). As a result, it is advantageous for the boards of the aforementioned companies to have independent directors with a variety of professional backgrounds. These independent directors could use their networks and resources from outside the company to help the business operations of the company make wise decisions regarding profits and assets, enhancing the corporation's overall operating performance (Guner et al., 2008). Since independent directors may bring a variety of management expertise and information from other industries, the board may widen its viewpoints by enabling additional comments and recommendations about the company's assets and profitability with their presence.

The company's boards, in particular, may require members with experience in accounting, finance, or law to offer specialized viewpoints and enhance the decision-making procedure (Conger & Fulmer, 2003). Ultimately, a diversified board's perspectives and expertise may improve operational and financial results. Companies that have experienced boards do well and also encourage learning, teamwork and effective performance thereby positively influencing overall performance. This finding is in consonance with the results of Arumona Erin, Onmonya, and Omotayo (2019) and Drobetz, Von Meyerinck, Oesch & Schmid (2018). Companies with members that Lack supervisory knowledge and experience as a result of inaccessibility of expert staff can surge agency costs and reduce firm profitability (salehi et al., (2018). Thus, board expertise plays a significant part in the enhancement of a company’s profit and performance. This result and findings are in harmony

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with that of (Harjoto & Ross, 2019; Ilaboya & Obaretin, 2015; Berezinets, Berezkin, Ilina, & Naoumova, 2019; Vo & Phan, 2013 and ljungquist, 2007).

Moderating role of board expertise in the relationship between earnings management and firm performance (ROA)

H_0: Board expertise does not significantly moderate the relationship between earnings management and return on asset.

Again, this study refuses the hypothesis that board expertise does not significantly moderate the relationship between EM and ROA.

From the findings, at a 1% significance level, board expertise is found to be a significant moderator between EM and performance (ROA). The interaction term (-0.631) confirms this which is negative and statistically significant. Additionally, the coefficient of EM has reduced following the introduction of the interaction. This can be explained that board directors who are experts and experienced in the field of finance and accounting can effectively and efficiently identify issues of earnings management quickly and prevent/deter managers from engaging in fraudulent and opportunistic behaviors.

In this regard, the intention of managers to manage earnings upwards to achieve bonus and other targets will be constrained in the midst of corporate boards that possess relevant knowledge in accounting and finance. This is very intuitive given that such expertise can ensure that quality financial reports are churned out by managers of the firms listed on the GSE. Also, the BoDs who are knowledgeable and have such expertise play an effective role in minimizing the agency problem between managers and shareholders by ensuing that, managers do not use discretional accounting methods to the detriment of the shareholders.

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Further, they also legally protect shareholders' interest by ratifying, monitoring, rewarding, and evaluating managers' activities such as financial reports. Thus, BoDs in the sampled firms who have expertise in accounting and finance can also exert control over managers which closes any opportunity the managers may have to participate in self-interested actions which are not consistent with shareholder wealth maximization such as fraudulent financial reporting. This result harmonize with the agency theory which stipulates that it is of real importance to match the requirements of managers and shareholders to limit agency issues among them (Ibitamuno, Onuchuku, & Nteegah, 2018). Further, the results sync with the findings of (Ndung'u, 2017; Brown, Beekes & Verhoeven, 2011; Sugiyanto & Candra, 2019; Bonacchi, Marra, & Zarowin; 2019 and Awolowo, Garrow, Clark & Chan, 2018) who found similar results.

Chapter Summary

The chapter presented the findings analysed with the two-step system GMM to investigate the influence of EM on the ROA of 14 sampled non-financial companies on the GSE. Descriptive analysis was performed to assess the center and variations in the dataset. Further, the Pearson correlation was performed to provide a preliminary assessment of the relationship between the variables. The findings from the system GMM show a positive effect of discretionary accruals on ROA.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Introduction

This chapter entails the summary of findings, conclusion and offers recommendations from the study.

Summary of the Study

Generally, the study explored the influence of earnings management on the performance of listed non-financial firms on the GSE. The discussions were underpinned by the agency theory and PAT and obtained further support from the upper echelon's theory. The study utilized the quantitative approach due to the type of the objectives. Further, the explanatory design was utilized to further answer the queries of the discourse. Performance was also measured by ROA. The study employed size, liquidity and leverage as control variables.

However, all the hypotheses of the study were not accepted as opposing findings were found. The hypothesis were: EM has no significant effect on the ROA of listed non-financial companies in Ghana, Board expertise does not have any significant effect on ROA and Board expertise does not significantly moderate the relationship between earnings management and ROA. Specifically, the study sought to investigate three key objectives.

Summary of Key Findings

First, to investigate the impact of earnings management on ROA of the firms. Second, to determine the impact board expertise has on return on asset. Third, to assess the moderating role of board expertise in the relationship between earnings management and firm performance.

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Concerning the first objective, the study revealed a significant direct impact of EM on ROA. The second objective also reveals a significant direct impact of board expertise on performance. The third objective further found board expertise to be an effective moderator between EM and ROA which implies that the effect of EM on performance reduces in the presence of board expertise. This may be due to the intentions of management in manipulating earnings.

The findings suggest that management's intentions to use discretionary accruals as means of manipulating financial statements are largely based on their self-interest which includes, meeting bonus targets and incentive schemes but not with the ultimate purpose of improving shareholder value. Knowledge wise, this study would help to understand and conceptualize earnings management and board expertise. This study may help the individual policies of the firms. These firms can use the results of this research to develop policies such as having boards with expertise in specific areas such as finance and accounting to be able to detect earnings when they exist.

Conclusions

Based on this study's findings, this study makes the conclusion that earnings management has a significant positive impact on ROA. This is in line with the PAT which explains the various factors that can induce management to manipulate earnings. Also, the discourse finds board expertise to have a significant positive effect on performance. Finally, the study finds board expertise to be an effective moderator between EM and performance.

These findings are consistent with the agency theory which stipulates that it is of real importance to match the requirements of agents and principals to limit agency issues inherent within the organisation.

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Recommendations

Considering the study's results, the following recommendations are made:

Shareholders who are responsible for approving BoDs must strengthen corporate governance structures in the sampled non-financial firms. This can deter management from using discretionary accruals to smooth earnings as such activity is detrimental to shareholder wealth. This may include the use of boards who have expertise to realize discretionary accruals.

Second, Managements of the selected non-financial firms should be incentivized in such a way that their performance are tied to increasing firm value and return on asset. This may also discourage them from managing earnings of the firms. Regulators must strengthen disclosure requirements and FR standards of non-financial companies on the GSE.

Board of directors in the sampled firms must have competence in the field of accounting and finance to exert control over managers which prevents any opportunities of engagement in self-interested activities which are not consistent with the shareholders' wealth maximization such as fraudulent financial reporting.

Suggestion for Future Research

This study primarily used real earnings management. Further studies can use accrual earnings management to examine the phenomenon. Comparative studies can also be undertaken to examine the influence of earnings on both listed and non-listed firms in Ghana as the intention of management of listed firms to smooth earnings may differ from that of non-listed firms.

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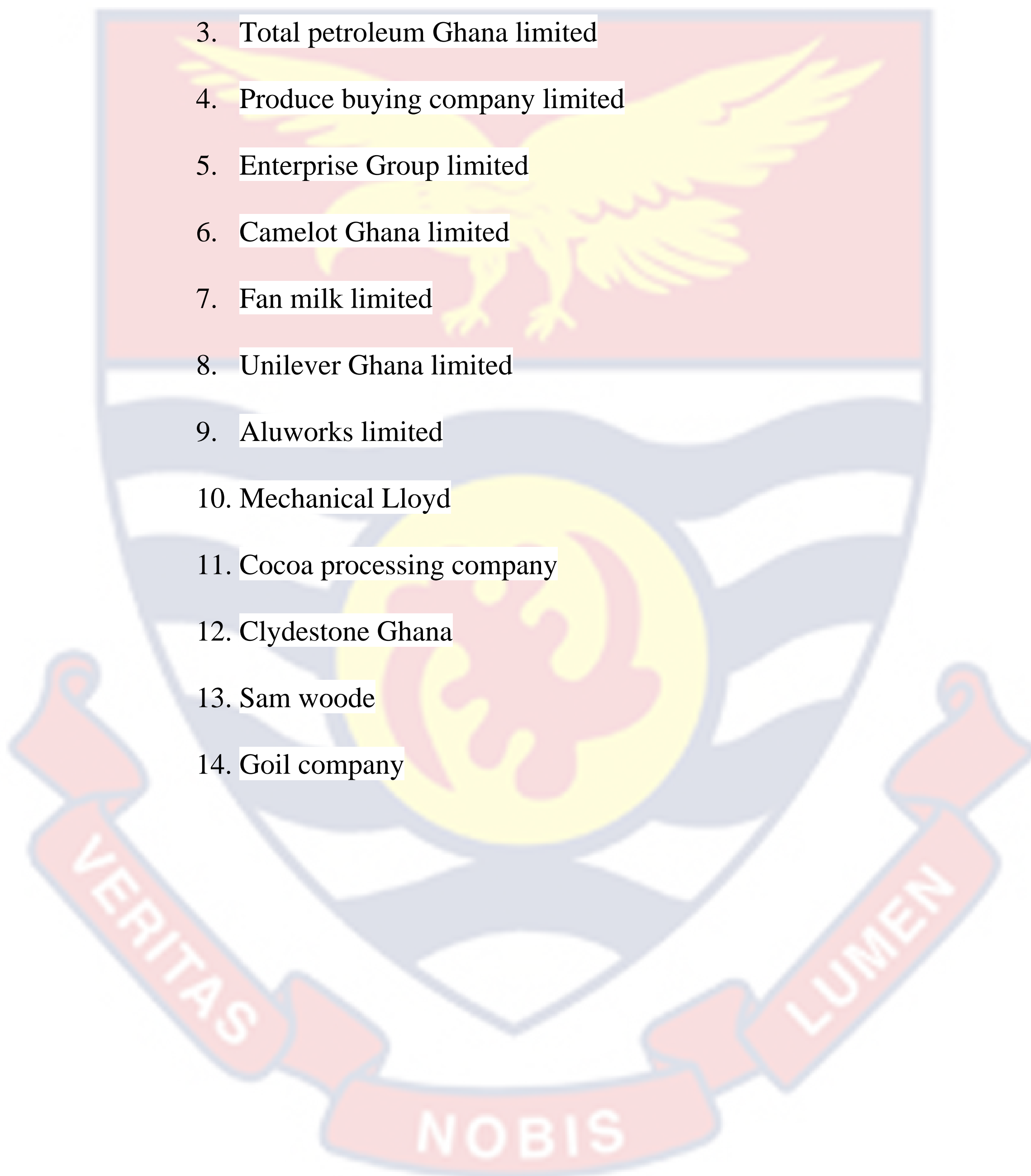
APENDIX A

NON FINANCIAL LISTED COMPANIES CHOSEN FOR THE STUDY



1. Guinness Ghana Breweries limited
2. Benso oil palm plantation
3. Total petroleum Ghana limited
4. Produce buying company limited
5. Enterprise Group limited
6. Camelot Ghana limited
7. Fan milk limited
8. Unilever Ghana limited
9. Aluworks limited
10. Mechanical Lloyd
11. Cocoa processing company
12. Clydestone Ghana
13. Sam woode
14. Goil company

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