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BOARD CHARACTERISTICS AND REAL ACTIVITY MANIPULATION (RAM) OF LISTED NIGERIAN CONGLOMERATE FIRMS

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ABSTRACT

This work is an examination of how characteristics of Board of Directors affect real activity manipulation of Nigerianlisted Conglomerate firms for eleven years period (2006-2016). The study employed multiple regressions as a method of data analysis obtained from listed Nigerian conglomerate firms annual reports and accounts using residuals of Roychowdhury (2006) to determine Real Activities Manipulation. Board of Directors characteristics were used as the independent variables of the study where Real activity Manipulation (RAM) was used as dependent. It was revealed from the findings that, the characteristics of board of directors', predominantlygrey and women directors were having significant effect in check-mating the dysfunctional attitude of managers in the listed Nigerian conglomerate firms but Executive and Non-executive directors proved to have less effect in restraining mangers from their opportunistic behavior in the Nigerian listed conglomerate firms. Therefore, the study recommends that listed Nigerian conglomerate firms should increase the number of grey and women directors in the committee as they are found to be highly effective in restraining managers from opportunistic behavior that leads to managements of earning in Nigerian listed conglomerate firms.

1. INTRODUCTION

At the end of every year, managers tends to keep themselves as busy as possible, in order to come up with an accounting report for share-holders, investors and other stake-holders. The main reason behind this effort, is to provide shareholder, investors and other stake-holders with information concerning the firm they manage. As in most cases investors are much more interested mostly in the previous year's economic earnings (result), which is used as a performance measure of the firm and use to value the firm.In spite ofall the accounting procedures, managers have room to shape earnings to their test and "cook the books" in their favor. For example, they can choose to post-pond a project that requires high amount, delay some expenditure that are discretionary by nature or relax the firms sales policy, or to anticipate sales revenue to improve reported earnings to desired level. Such manipulation can lead to investors and other stake holders have a wrong impression with respect to the true position of the reported entity and, ultimately, lead to a wrong investment, dividend or financing decision.

As a dominant factor that determines many firms decisions either investment, dividend or financing, managers tend to alter the earning to a certain direction either through some selective judgment in choosing accounting policies or in the structure of some transactions to alter it financially so as to mislead users or for influencing some contractual agreement that depends on the numbers reported (Shehu& Ibrahim 2014). The most common means to which mangers manipulate earning are accruals which have no direct consequence to cash flow, hence, called accrual manipulation, furthermore, managers tend to manipulate real activities during the year either through changing the timing or structure of an operation, manipulating sales by offering favorable term than usual or cutting down some expenditures that are discretionary by nature to increase income which are called real activity manipulation (RAM). All these manipulations have direct cash flow consequences to the reporting entity (Chapman, 2008)

Real activity has been defined by Roychowdhury as the primary activity of an enterprise, in other word it is the ordinary operational practice of an enterprise. However, he defined real activity manipulation as a movement away from the ordinary firm's operational practice that is emanated by the aspiration of mangers achieve some financial reporting objectives which is either through cutting down some discretionary expenditure, offering lenient and favorable term than usual to increase sales or producing more than what is necessary to cut down cost of goods sold. In an effort to safeguard the right of the investors, share-holders and other stake holders in trying to get true and fair information of the reporting entity and restrain manger from dysfunctional attitude corporate governance mechanism of board characteristics are employed.

The tragic losses grieved by stockholdersfrom misappropriation of managers in companies like the case of Enron, WorldCom and Cadbury Nigeria Plc. have resulted in many serious institutional and environmental changes for a quite numbers of companies. The main aim is to have an interest in knowing how many governance structures affect management in managing the firm's resources. Most of the outragesremained the main reasons that make investors to wide open their eyes, as many of the firms collapse due to the misuse of resources and manipulating the financial reports. This operation has led investors to disregard the integrity of the report prepared by managers. The true picture of the conglomerate firms earning can be explain best by its sales, changes in sales and it production these are variables that capture the real activities of the firm but nothing else (Gunny, 2009). Earnings that is not as a result of those activities are referred to as RAM. Furthermore, as another indication of earnings management (RAM), is a reduction in research and development, maintenance and advertisement expenses as they are expenses in the year they are incurred who's any reduction in will increase income, this action leads to lower dawn the earnings of year preceding and operational cash flow. This is also serve as a characteristic of real activity manipulation.

These action questioned the reliability of the financial statement produced since the statement are meant to provide the user with correct fact and figures which will reflect true and fair not a statement that will be misleading, which will reflect actual performance and position of the firms. Whenever firms manipulate their earnings, the information that is provided in the financial statement tends to be illusion which make stake holder to have a wrong decision.

This research is aimed to examine the impact of board of directorsattributes on manipulating the firms real activity in Nigerian listed conglomerate firms, using four board characteristics (executive, non-executive, grey and women directors) and real activity manipulation variables that capture real firms operation better than accruals. Even thoughthis research is not the only research on Corporate Governance and RAM to the best knowledge of the researcher, the area is still unexplored. As only few studies were conducted in Nigeria on real activity manipulation in manufacturing companies and banking industry, e.g. Ibrahim, Bello and Kargi (2013), Shehu and Ibrahim (2012) and Modibbo (2016). This gap needs to be filled and find which of the board of director's characteristics can best be used in restraining this negative behavior by the management of listed Nigerian conglomerate firms.

There is null hypothesis in this research that assumethe characteristics of board of director'sdo not have significant effect in preventive real activity manipulation of Nigerian listed conglomerate firms. The result is important to government by helping it to see the clear picture of the listed conglomerate firms so as to know the actual amount that will be generated as tax. It will also be important to investors. In that they will have dependable financial statements that they can make their investment decision. It will be important to managers in understanding the strength and weaknesses of the company, governing bodies like (SEC, NSE), and those in charge with setting standard e.g. educators, scholars, particularly in the field of accounting, Financial Reporting Council of Nigeria, accountants, researchers and auditors.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Real activity manipulation

Real activity has been defined by Roychowdhury as the primary activity of an enterprise, in other word it is the ordinary operational practice of an enterprise. However, he defined real activity manipulation as a movement away from the ordinary firm's operational practice that is emanated by the aspiration of mangers achieve some financial reporting objectives which is either through cutting down some discretionary expenditure, offering lenient and favorable term than usual to increase sales or producing more than what is necessary to cut down cost of goods sold.

2.2 Board of Directors Characteristics

2.2.1 Executive Directors

Executive director are those directors that have portfolio in the operation, they are those directors that are having direct link or direct connection in running the daily operation of the businessand attract a very low cost. To monitor real activity manipulation well, it is required that the committee members should both be skilful and independent concerning the operations of the firms (Katherine, 2012).

2.2.2 Non-executive Directors

These are director that have no direct executive or administrational role in the operation of the firm,non-executive directors are directors that served mainly for external shareholders to supervisemanagement as well as those directors that are executive (Fama, 1990 & Connors, 1989).

2.2.3 Grey Directors

A director is defined as Gray when he has a kind of business relationship with the firm, e.g. he is an affiliate who is former employee to a company, CEOs relations or any other people who have significant transaction with the firm (Ibrahim, 2011). In addition, according to the New York Stock Exchange and the National Association of Corporate Directors listing requirements defined an affiliate director (grey director) as the employees who have worked for the firm, CEOs relatives or someone who has a substantial transaction with the firms.

2.2.4 Women Director

Women director is defined as the presence of female gender in the board public firms and how they would aid in deterring managers opportunistic behavior. As posited by Adams & Ferreira, (2004), Springer, (2008) and Adams, Gray &Nowland, (2010) management diversity is defined as the existence of women among the highest ranking CEO’s and on the board of directors and they can be used in deterring managerial opportunistic attitude.

2.3 Review of Empirical Literatures

Several researches were conducted to examined the impact of Board of Directors Characteristics in restraining RAM which include; Modibbo (2016) studied the effect of audit quality and corporate governance on real activity manipulation in Nigerian money deposit banks for the period 2004-2013. The study used correlational research design using a cross chapter of 15 banks. The data was analyzed through GLS technique and found that governance attributes (independence of the board and its size) had positive significant consequence on real activity manipulation while audit committee (size and independence) had negative significant effect on real activity manipulation. This research employed only board size and independence as proxy for board of directors' composition, which will not absolutely represent board composition. Women director and grey directors are missing in the board, whom will be employed by this research. Moreover, the lapse of time may have rendered the result invalid. The current research will increase the number of independent variables from two to four by taken into account the above mentioned, and the scope will be up to 2017

In centering on conglomerate firms, the researcher found a suitable circumstance through which earnings management may be simply carried out. This is possible if one studies the inter-woven association among the mother firms and their subsidiaries. Most of the world's epic frauds and outstanding earnings management occurrences were carried out by conglomerates firms, such as Enron and WorldCom. The justification of selecting conglomerates is that researches discovered that large scale multi-faceted earnings management is mostly connected with conglomerates due to their peculiar structure (e. g. the transfer of profitable or toxic assets to/from subsidiaries, related party transactions and so on.). These are among the other parameters that led the researcher to choose conglomerates as the study area.

Abubakar (2016) studied the effect of audit quality and corporate governance on real activity manipulation in Nigerian money deposit banks for the period 2004-2013. The study used correlational research design using a cross chapter of 15 banks. The technique of data was through GLS and it was revealed that governance attributes (independence of the board and its size) have a positive significant effect on real activity manipulation while audit committee (independence, size and board size) have a significant negative effect on real activity manipulation. This research employed only independence and board size as the proxy for board of director's composition, which will not absolutely represent the board composition. The audit committee size is missing in the audit committee characteristic. Moreover, lapse of time may have rendered the result invalid. The current research will increase the number of independent variables from five to eight by including executive, non-executive directors in composition of board and audit committee meetings and scope of this research will be up to 2016.

Shehu and Ibrahim (2014) examined the effects of board of director's characteristics (executive directors, non-executive directors, woman director and grey director) on manipulating real activities in the Nigerian listed conglomerate firms. The employed secondary data for the period of six (6) years and found that board of director's characteristic, especially executive director, proved to be an effective device in check-mating real activity manipulation practice of listed conglomerate firms in Nigeria, However, other attributes like woman, grey and non-executive directors were found to be less effective. The negative relation of the executive director with real activity manipulation is consistent with the empirical result reported in Jeft, Mark and Katherine (2011) and Almeida, Jose and Francisco (2011) but contradict the findings of Xie, Wallace and Peter (2001), and Beasley (1996), and (Deschowetal 1996).

Jeff, Marc and Katherine (2012) examined the relation between board of director's attributes and real activity manipulation of sampled American firms for the period 1996 – 2010. The study used panel data of multiple regression for analysis and found that discretionary expenses and real activity manipulation total are negatively correlated with insiders, that is, boards that have high number of executive directors are highly active at restraining real activity manipulation. The negative relation of executive director with real activity manipulation is consistent with the empirical result reported in Shehu and Ibrahim (2012) and Almeida, Jose and Francisco (2011), but contradicts the findings of Xie, Wallace and Peter (2001), Beasley (1996) and (Deschowetal, 1996).

Almeida, Jose and Francisco (2011) examined corporate governance and real activity manipulation of the Brazilian steel and metals industries for the period 2005-2009. The study used 14 sample firms and data were analyzed using multiple regression. It found that metallurgical industries manage their earnings results through operational decision relating to selling, general and admin expenditure and that executive directors were negatively related with real activity manipulation of the listed metallurgical Brazilian companies. The negative relation of the executive director with the real activity manipulation is consistent with the empirical result reported in Jeft, Mark and Katherine (2011) and Shehu and Ibrahim (2012), but contradict the findings of Xie, Wallace and Peter (2001), Beasley (1996) and (Deschowetal, 1996).

Kang and Kim (2011) posit how corporate governance affect real activities manipulation in the stock exchange of Korea for period between 2005 -2007. The study used OLS regression for data analysis. The report was, when the board of directors is either large or independent the overall real activity manipulation tend to reduce. Furthermore, the study found that real activity manipulation tends to decreases as the number of external directors increases, it was also reported that when the proportion of members with large experience increases as well as frequency of the meetings, management have much chances to manipulate earnings. In summary, real activity manipulation is affected by the governance structure. This result contradicts the empirical result reported in Jeft, Mark and Katherine (2011) and Shehu& Ibrahim, (2012).

Ibrahim (2011) examined the effects of board of director's characteristics (executive directors, non-executive directors, woman director and grey director) on the practice of real operational manipulation in the Nigerian listed manufacturing firms. The research uses secondary data for the period of six (6) years and found that board of director's characteristic, especially the executive director, is found to be an effective device in check-mating and restraining real earnings managementin listed manufacturing firms in Nigeria, However, other attributes like woman, grey and non-executive directors were found to be less effective.

Adams, Gray and Nowland (2010) stated that the woman director is the existence of female gender on the board of public enterprises and how they would aid in deterring managers' opportunistic behavior. The study examined whether the presence of women in the corporate board would be of any help in restraining the management from manipulating it earnings or not. In a similar study, Rovers (2009) examined how the female director on the corporate board can provided legitimacy to a company. The research justifies that, appointment of women on the board are affected by the organizational characteristics and examined whether they may be of any help in deterring the manager's opportunistic attitude.

Gunny (2009) examined the consequences of real activities manipulation, that is, how real activities manipulation affect company's earnings, through either a decrease in developmental and research expenditures to escalate income, a reduction in general, admin or selling expenses or to time when an income should be recognized from sales of fixed asset or to reduce price in an effort to increase sales. The study documents that manager's use real manipulation to the detriment of shareholders. Firm's reflecting real manipulation to just meet earning benchmark has lower subsequent firm's performance compared to the firm that does not engage in real manipulation.

Visvanathan (2008) examined how board of directors as well as audit committee characteristics affects real activity manipulation for the period of 1996 – 2002 taking a sample of firms in U.S. He found evidence that non-executive directors played an effective role in restraining real activity manipulation activities. The negative relation of the outside director with real activity manipulation is consistent with the empirical result reported in Xie, Wallace & Peter (2001) and Peasenelly, Pope and Young (1998), but contradicts Jeft, Mark & Katherine (2011), and Shehu& Ibrahim (2014).

Adams and Ferreira (2008) investigated on whether the existence of women on the boardroom have impact on governance and performance. The hypothesis of the study is diversity of gender on the board affect governance insome ways. It was equally found that the composition of different gender on the board is having a positive relation to the measure of board effectiveness and deterring the manager's opportunistic attitude. This result is consistent with Springer (2008), but contradict the empirical result reported in (Adams, Gray &Nowland 2010).

Springer (2008) examined how financial performance is affected by the participation of women on the board of directors of a firm andhow senior management enhances it. The findings of the study reveals that, an appointment of women as leader is good most importantly when there is problem in the organization that calls for risk and criticism. The study found that appointing more women as a leaders in high management issues or on corporate board usually do not yield a high return and at the same time cannot restrain manager's dysfunctional attitude which leads to earnings management. The positive relation between the woman director and real activity manipulations is consistent with the empirical result reported in (Adams & Ferreira 2008).

Beatriz (2008) examined the relation between board characteristics and real activities manipulation of a sample of U.K firms. The study used multiple regressions for data analysis and found independent directors to have sufficient technical knowledge in identifying opportunistic reduction in research and development expenditure to manipulate earnings. It suggested the need to increase the number of independent directors on corporate boards to deter real activities manipulation. The negative relation of the outside director with real activity manipulation is consistent with Visvanathan (2008), but contradicts the empirical result reported in (Wenxia& Kin, 2007).

Wenxia and Kim (2007) examined on the relationship that exist between board and the extent of real activity manipulation, logistic regression was used for the period between 2004-2006 in Canada where he identified real activity manipulation. The findings of the study reveals that, there exist a significant positive relationship between independence of the board (non-executive directors) and cutting of research and development expenditure which is abnormal. The positive relation between outside director and real activity manipulation is consistent with the empirical result reported in Visvanathan (2008) but contradicts the result of Beatriz (2008) and Visvanathan (2008).

Bita and Noravesh (2005) examines on whether there exist, an association betweencharacteristics of the board and management of earnings in Iran, independence of the board, it's size, meeting, leadership, institutional investors and audit committee were used as the variables. OLS regression was used as the method of data analysis. They found that the larger the board size the less efficient the monitoring and thatmanagement of earnings is positively related to earnings management is positively related to board size. Composition of the board is negatively related to earnings management. The positive relation of board size with real activity manipulation contradicts the empirical result of Kang and Kim (2011), whereas the negative relation between board composition and real activity manipulation is consistent with (Kang & Kim, 2011).

Abdullahi and Hunsin (2004) examines the effect of abnormal accruals, audit committee characteristics and board of directors characteristic in an environment that are institutional where there is fewer governance regulations and there is high accounting discretion in a study that is joint between Malaysia and Singapore. It was found by the study that, there is no relationship between abnormal accruals and board independence. Furthermore, it was reported that, audit committee independence and board size are related to high quality accounting. It was suggested by the findings that, audit committee proved to be highly effective in reducing income through abnormal accruals which provide qualitative financial report. The conclusion of the study was that, audit committee would only be seen highly effective only when it is comprised of independent directors.

Zhou and Chen (2002) examined on the relationship that exist between board of directors characteristics, audit committee characteristics and earnings management, 989 U.S banks were used as a sample for a period between 2000-2001, the conclusion of the study was that board independence and size influence board efficiency which leads to less earnings management in the banks. The main loophole of the research was that, it uses total loan loss provision as the proxy for earnings mangement. Because itdoes not take into account the fact that total loan loss provision is the combination of discretionery and non-discretionery accruals. The negative relation of board size and real activity manipulation contradicts the empirical result of Bita and Noravesh (2005), whereas the negative relation of board independence is consistent with (Visvanathan, 2008).

Xie, Wallace and Peter (2001) examined the role board of directors and characteristics of audit committee play in restrainingthe practice of earnings management in U.S non-financial firms for a period 1992 – 1996. The study found that boards of directors (outside members) in a firms that have a smaller discretionary accrual are associated with firms. The Board is negatively associated with discretionary accruals. The negative association of non-executive directors with real activity manipulation is consistent with the empirical result reported in Zhou and Chan (2002) but contradicts the result of (Wu & Hsu, 2007).

Peasenell, Pope and Young (1998) examined corporate governance characteristic of non-executive directors and managements of earnings in the U.K for the period 1993 -1996 using the discretionary accruals of Jones model of (1991), the research found that, there exist a significant and negative relationship between the proportion of outside directors and earnings management and that a board that is effective can restrain management from their dysfunctional attitude of earnings management.. The negative association of non-executive directors with real activity manipulation is consistent with the empirical result reported in Zhou & Chan (2002), but contradicts the result of (Wu & Hsu, 2007).

2.4 Theoretical Frame work

The research based is on positive accounting theory, as advocated by Watts & Zimmerman (1978). It was asserted by the positive accounting theory that a relationship exist between accounting variables/numbers and that accounting scholars should endeavor to identify these patterns which could helpexperimentation. A theory which is said to be a positive accounting theory is Agency which explain and predict how managers chooses accounting theories, this is because accounting numbers are said to be a mechanism to control agency relationship. Hence, organizations are expected to report financial statements that are reflecting the true and fair financial position of the firm (Katherine et al, 2011).

As a theory that serves as a basis to understand how management operate through many control mechanism that are either internal or external. Agency theory is meant to ensure the alignment of principal-agent relationship as well as to protect shareholders interests and thereby reducing the cost to agency (Antonio, 2010). Nevertheless, there may be many factors that might leads to manipulation, irrespective of the associationamong the agent and his principals like compression, chance and principles (Nicola, 2006). Hence, the kind of connection between the agent and the principals may shrink the extent of the manipulation but cannot eliminate it (Beatriz, 2008).

Largely, the main theory employed by most of the previous researches which are dominantly affecting the development of corporate governance are: the agency theory, the stakeholder theory, the stewardship theory and the institutional theory (Mallin, 2007). Moreover, it is suggested that active monitoring hypothesis recommended that firms have right to restrict managers from their dysfunctional behavior of managing earnings either through real activity or accrual base earnings management. The proxy for active monitoring is established through whether internal audit has vested interest that could hinder their role of the active monitoring of firms because earnings quality would be higher when the auditor plays an active role in monitoring firm’s reporting practices. Furthermore, corporate performance defence on whether boards are able to monitor, influence and discipline managers to pay more attention on achieving the organisational objectives (Gilson & Gordon, 2003). Majority of the empirical findings are in support of the active monitoring hypothesis. Therefore, this research is of the view that active monitoring hypothesis better explains the variables of the study. Therefore, it was adopted as the theoretical base.

3. RESEARCH METHODOLOGY

This study used correlation research design, which has given it a better vision on the previous empirical evidence on the study variables. The data are source from Annual report and account of the conglomerate firms listed on the Nigerian stock exchange as at 31st December 2016 since all the needed variables for the study are available. All the six listed conglomerates firms (a. g. leventisplc, john holt plc, challeramsplc, scoanig.plc, uacnig.plc and transcorpnig.plc) form the population of the study, the entire population is considered.

The sources of data are from published annual reports and account of the firms that finally constituted the population of the study. Datawere pull out from the financial statements of the Nigerian listed conglomerate firms for the period 2006-2016.

Multiple regressions has been employed as the method of data analysis, as was used by (Shehu& Ibrahim 2014& Kang & Kim, 2011), and examine the role of board of directors characteristics on real manipulation of the activities in Nigerian listed conglomerate firms. The model of corporate governance and real activity uses a single dependent variable, real activity manipulation (RAM) and explanatory variable (board of director's characteristics) comprising four proxies (executive, non-executive, women and grey directors) for board composition. The data were transformed/scale by lagged total asset before running the regression.

Two stages analysis was conducted (secondary and primary stages). The secondary model which is the first stage was used to measure the relevant proxies (cash flow from operation, sales and changes in sales all scale by lag total asset) and then the primary model was applied in second (final stage) to test the hypotheses raised.

In stage one of the analysis, using secondary model, Real activity manipulation was estimated by a cross sectional regression model adopted from Roychowdhury (2006), which is said to be a linear function that exist between sales and change in sales, all divided by total assets of the last year. It is determined using the Dechow, Kothari and Watts (1998) model as was used by Rowchowdhury's (2006) model of abnormal cash flow. Abnormal cash flow from operation is the actual cash flow from operation less the cash flow that is normal from operation calculated using estimated coefficients. Cash flow from operation portrays the primary activity of the enterprise, not from investing or financing activity divided by the lagged total assets is computed, a variables that indicate one exactly , less than one or more than one. Assuming that the scaling cash flow from operation divided by total asset lagged is, let's, say the value is one, on the other hand, sales and change in sales all scaled by lagged total asset is also one, with no residual. Then there is no evidence of real activity manipulation from that firm. However, where cash flow from operation scaled by total asset lagged is one and sales and change in sales is more than one, the difference will be the earnings of the firm that cannot be explained by its sales and change in sales, which is real activity manipulation. Moreover, the residuals from the first model are standing as real activity manipulation (RAM).

Regression is run and the residuals are saved It's the residuals that portray whether the company manipulate their earnings or not by looking at its gravity. The higher the residuals, the higher the activity manipulation and the higher it affects the earnings quality of the listed conglomerate firms in Nigeria. Moreover, the lower the residuals, the lower the real activity manipulation and the lesser it effects the quality of the listed conglomerate firms earning (Roychowdhury, 2006, Gunny, 2009 and Katherine et al, 2011). The yardstick is that cash flow divided by total asset lagged as regression is run against sales and change in sales as regressors. If there is no residue means, no real activity manipulation from that firm, but where there is residuals, it means there is the presence of real activity manipulation from that firm.

In the second stage of the analysis, board of directors characteristics are run against real activity manipulation (residuals of the first regression model) to see whether they can restrain this behavior of the listed conglomerate firms in Nigeria by looking at the variable coefficients.

The remaining of the Roychowdhury (2006) model of abnormal cash flow shows the extent of the real activity manipulation, if the residuals is high mean that there is high real activity manipulation and a lower residuals signifies lower real activity manipulation, in the primary regression which is said to be second regression model specified for the study.

Abnormal cash flow model is specified as follows:

$$CFO_t/TA_{t-1} = \alpha_o + \alpha_1 1/TA_{t-1} + \alpha_2 S_t/TA_{t-1} + \alpha_3 \Delta S_t/TA_{t-1} + \mu_t$$

Where:

CFO_t = Cash flow from operation of the current year

$\alpha_1 1/TA_{t-1}$ = scaled intercept

TA_{t-1} = Total assets at time t-1(of last year) scaling by lagged total assets is to take care of the variation of the size of the firms in order to avoid spurious correlation among the variables, so that the result will not be misleading (Roychowdhury, 2006, Gunny, 2009 and Yero, 2012).

S_t = Sales at time t (of the current year).

ΔS_t = Change in sales (this year's sales minus last year's sales) to estimate the overall expansion of business operation . Firms with high prospects are likely to have more great change in sales and lower for declining firms.

μ_t = residuals (which can alternatively be used to proxy for abnormal cash flow).

α_o = the intercept.

α_1, α_2, are the parameters to be used in estimating the normal cash flow

The scaled intercept ($\alpha_1 1/TA_{t-1}$) in the estimation model allows the average CFO_t/TA_{t-1} for a specific year of an industry to be non-zero even where the main explanatory variables in the estimation model, sales and lagged sales, are zero, (Jones, 1991, Dechow, Sloan and Sweeney, 1995 and Kasznik, 1999).

Using the result from the above equation, an abnormal cash flow, which represents real activity manipulation, shall be computed as shown below:

$$CFO_t/TA_{t-1} = \underbrace{\alpha_o + \alpha_1 1/TA_{t-1} + \alpha_2 S_t/TA_{t-1} + \alpha_3 \Delta S_t/TA_{t-1}}_{\text{Normal cash flow}} + \underbrace{\mu_t}_{\text{abnormal cash flow}}$$

Model Specification

The following regressions represent the models that examine the hypotheses of the study.

$$RAM_{it} = \beta_0 + \beta_1 EXDR_{it} + \beta_2 NEXDR_{it} + \beta_3 GDR_{it} + \beta_4 WDR_{it} + \varepsilon_{it.} \ldots\ldots\ldots\ldots\ldots i$$

Where:

RAM = real activity manipulation.
$\beta_{0\,=}$ intercept.

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$\beta_1 EXDR_{it}$ = executive directors.

$\beta_2 NEXDR_{it}$ =non-executive directors.

$\beta_3 GDR_{it}$ = gray directors.

$\beta_4 WDR_{it}$ =women directors.

$\beta_{1-}\ \beta_{8\ =}$ are regression coefficients.

$\varepsilon_{it.}$ = error term.

Table 1. Variables and their Measurements

S/N	Variable	Measurement
1	Real Activities Manipulation (RAM)	$CFO_t/TA_{t-1} = \alpha_o + \alpha_1 1/TA_{t-1} + \alpha_2 SL_t/TA_{t-1} + \Delta SL_t/TA_{t-1} + \mu_t$
2	Executive Directors(EXDR)	Measured by the number of directors that are executive on the board to total directors (Katherine, 2012)
3	Non-Executive Directors(NEXDR)	Measured by the number of directors that are non-executive to total directors on the board (Kang & Kim, 2011)
4	Grey Directors (GDR)	Measured by the number of directors that are grey on the board to total directors (Ronald, Mansit&Reeb 2003)
5	Women Directors (WDR)	Measured by the number of directors that are women on the board to total directors (Azzim, 2004)

4. FINDINGS OF THE STUDY

The model of the is as follows:

RAM = .0833EXDIR + .0711NEXDIR - .4000GDIR -.1587WDIR

Table 2. Regression result of real activity manipulation and board of director characteristics (executive directors, non-executive directors, grey directors and women directors)

Variables	Coef	Std Error	T	P>/t/
CONS	.2559505	.1121038	2.28	0.026
EXDIR	.0832663	.0168258	4.95	0.000***
NEXDIR	.0711417	.0257022	2.77	0.007**
GRDIR	-.399662	.1585137	-2.52	0.014**
WDIR	-.158667	.0400505	-3.96	0.000***
R. Squared	0.3948			
F. Value	9.95			
Prof >F	0			

Source: Generated by the Researcher from the Data collected from account and reports of the sampled firms

***, ** and * signify 1, 5 and 10% respective level of significance.

Model one regression result is presented on Table 2 reveals the collective R^2 (0.3948), which serve as the various coefficient that determines the total variation in the dependent variable which is explained by the independent variables mutually. Therefore, it shows that a 40% of total variation in Real Activity Manipulation of the listed conglomerate firms in Nigeria is caused by their Board Attributes (exdir., nexdir., grdir. and wdir.). This indicates that the model is well developed and the dependent variables are correctly selected, joint and used as the explained variable is accounted for by the explanatory variables.

4.1 Model one Hypothesis Testing

Model one hypothesis is on how significant Board Composition affects Real Activity manipulation of the listed conglomerate firms in Nigeria. It was tested using computed t statistics at 1, 5 and 10% levels of significance. This means that, for the relationship between Board Composition and RAM to be significant, the cut-off value for computed t must at least be 2.52 at the stated levels of significance.

In the regression estimations, the regression result in Table 2 reveals that Executive Directors have positive and significant effect at 1% level of significance on real activity manipulation of the listed conglomerate firms in Nigeria where the T statistics is 4.95. The coefficient of Exdir of .0833 indicates that, on average, a unit change in Exdir holding other variables constant increases RAM by 4.95.The positive relationship between executive directors and real activity manipulation contradicts the empirical results reported in Ibrahim G. (2011), Jeff, Marc & Katherine (2012) and Almeida, Jose & Francisco (2011) but is consistent with the findings of Sarah (2007).

Non-executive directors were found to besignificant and have a positive relationship ata level of significance that is 1% with real activity manipulation of the listed conglomerate firms in Nigeria where the T statistics is 2.77 with the coefficient of .0711, this implies that a unit change in Nexdir holding all other variables constant will increase RAM by 2.77. This is in-line with the result reported in an empirical study of Ibrahim (2011) and Weanxia and Kim (2007) but contradicts the finding of Peasenell, Pope & Young (1998) Zhou and Chen (2002), Visvanathan (2008) and Kang & Kim (2011) and Bita&Noravesh (2005).

However, the relationship that exists between women directors with real activity manipulation in the listed Nigerian conglomerate firms proved to be significant at 1% level of significance with a negative relationship where T statistics is 3.96 with coefficient of -.1587. This means that a change upward in the number of women directors in the board will restrain the manager from the manipulative attitude in the listed Nigerian conglomerate firms. This finding is in-line with the findings reported in Jin-hui L. and Zeyue H. (2017), Gul et al., 2011, Srinidhi et al., 2011 as cited in Jin-hui L. and Zeyue H. (2017).

Gray directors were found to have negative and significant relation at 1% level of significance with dependent variable real activity manipulation inregression result where 2.31 is established as the T statistics with the coefficient of -.3910. This implies that, a unit change in Gdir. holding all other variables static will decrease real activity manipulation by 2.31. This empirical finding contradicts the empirical result reported in Ibrahim (2011)

In conclusion, the study has hypothesized that the characteristics of board of directors have no significant impact in preventive real activities manipulation practice in the listed conglomerate firms in Nigeria. The findings provide evidence that board characteristics, especially Grey Directors and Women Directors were found to have a negative relationship with the dependent variable real activity manipulation practice. This means that grey and women director could be used in deterring the manipulated behavior of managers (real activity manipulation) In addition, other board of directors features like Executive Directors and Non-Executive Directors are significant not in restraining real activity manipulation. The first null hypothesis therefore, is hereby rejected.

4.2 Implications of the Findings

The study has several policy consequences. It contributions are expected to be of benefit to the accounting profession in general. The results shows many important implications as they suggest that there is need to encourage application of corporate governance, especially Board composition in general and women as well as grey directors in particular by the listed Nigerian conglomerates firms thereby providing an effective monitoring capacity to deter management of earnings in Nigerian listed conglomerate firms.

Board of director's attributes, especially grey and women directors, are reported to havenegative effect in reducing real activity manipulation practice of the listed conglomerate firms. The implications of these findings are that, the more the grey and women directors are on the board, the higher the effectiveness and reliability of financial statement and the lower the real activity manipulation practice of the listed conglomerate firms, and the higher the ability of board members to monitor the opportunistic activity of the management of the listed conglomerate firms in Nigeria.

Moreover, some board attributes like Executive Directors and Non-executive Directors were proved ineffective in reducing real activities manipulation of the listed conglomerate firms. The result showed that, Executive and non-executive directors have no effect on curtailing RAM, which decrease the quality of the earnings of the firm.

Conglomerate firms in particular and other stakeholders in general are faced with a challenge that affect the accounting profession, i.e. real activity manipulation practice. Managers are assumed to be highly objective and fair enough on what was entrusted upon them thereby preparing and presenting what is truly reflecting the position on the firm are so as to make general public rely on realistic figures for their various decision.

The findings will be used in helping mangers to curtail the real activities manipulation in Nigerian listed conglomerate firms and deter their manipulative accounting practice.

5. CONCLUSION AND RECOMMENDATIONS

From the findings of the study the following conclusion are drawn:

I. Board of director's characteristics particularly grey and womendirectors are found to be highly effective monitors and control devices for reducing manager's opportunistic behavior.
II. Executive and non-executive directors have no effect in preventing the real operational manipulative attitude of manager in listed conglomerate firms in Nigeria.

Therefore, it is recommended that;

I. Nigerian listed conglomerate firms should de-emphasize on presence of executive and non-executive directors on the board, as they have no effect in reducing the dysfunctional behavior of managers.
II. The study recommends that, listed conglomerate firms in Nigeria should increase the number of grey directors on the board as they proved to be highly effective in restraining managers from their opportunistic behavior that leads to earnings management.
III. Emphasis should also be placed on the need to increase the number of women directors on the board because it proved to be a viable and effective strategy in restraining real activity manipulative practice.

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