The Effects of Earnings Management on Dividend policy in Nigeria: An Empirical Note

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Abstract**—**Earnings management is becoming an area of interest to many stakeholders including researchers, after the case of Enron, WorldCom, and other similar accounting scandals. Although, many authors had written on earnings management in Nigeria, this present study looked at the effect of earnings management on dividend policy in Nigeria using quoted non-financial institutions in Nigerian stock exchange. In this study, the dividend policy is used as the explained variable, while earnings management serves as the explanatory variable. Firm size, return on equity and financial leverage were used as control variables. Data were sourced from annual report and account of the year, 2012, from the selected firms. Ordinary least square was used to estimate the model built for the study. The results show that earnings management has negative relationship with dividend policy of a firm and it is not significant in the determination of dividend payout of every firm. It was therefore concluded that this relationship could be as a result of effective corporate governance mechanisms put in place. If managers increase discretionary accruals of company, dividend percentage will not increase, even not significant in the determination of dividend policy in Nigeria.

Keywords**—**Discretionary Accruals; Dividend Policy; Earnings Management; Modified Jones Model.

Abbreviations**—**Discretionary Accruals (DAC); International Accounting Standards (IAS); Ordinary Least Square (OLS); Return on Equity (ROE); Securities and Exchange Commission (SEC).

I. INTRODUCTION

DECIDING whether a firm's financial statement is accurate or reflects a true picture of an entity fairly, and/or a corporate governance mechanism is effective, is becoming complex and surrounded with uncertainties. For instance, making accounting provisions and accruals may be necessary for the purpose of maintaining accounting reality of an entity. However, it may be seen as a questionable act by the relevant authorities such as tax authority, Securities and Exchange Commission (SEC) and relevant accounting standard boards.

Before the International Accounting Standard (IAS, 37) was issued, it was very difficult to know if there was any accounting standard that dealt with accounting provisions and the likes. Even now, between managers and external information users there exist, the problem of asymmetric information. The situation whereby users allow managers to use their discretion in preparing and reporting accounting transactions for their own advantage; the management of companies will want to show their accounting results in the most favorable ways by making a great one-off provision in years where a higher level of underlying earnings was generated. These kinds of provisions are called "big-bath" provisions, which were in turn made available to shield expenditure in future years when the earnings were not so good. That is, provisions are being used for earnings smoothened and the stakeholders are made to believe by relying on the financial statements produced, that the firm is performing well.

These activities are called earnings management, the management actions that diverge from usual business practices, undertaken with the primary objective of meeting certain earnings thresholds [Roychowdhury, 2006]. It can also be an arrangement where the managers use different means to smoothen the profits of a firm disclosed in the financial statements and still go ahead to pay a robust dividend to the investors (shareholders) for the purpose of increasing the market value of the firm. Mean while, an overwhelming weight is placed by analysts and investors on the information contained in the statements with a critical reason that the financial statements would have been vetted

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by an independent auditor. Normally, the preparation of the statements is controlled and regulated under varieties of rules and regulations, but it might have been trick- prepared by the management to portray the firm's ironic fortune to the stakeholders especially investors.

Following this scenario, earnings management is becoming an area of interest to many researchers, after the case of Enron, WorldCom, and other similar accounting scandals. A critical look at dividends, as a reward to shareholders, is normally paid at a specific period of time; which is apparently based on the declared earnings of a firm and endorsement is made by its directors. It follows that if there are no earnings, dividends are not declared. But when earnings are made, the firm may propose dividends. Paying dividends would boost up the market value of firm in the capital market and at the same time increase the wealth of the shareholders. But there could be a period where these earnings to be sliced up by the various stakeholders might have been managed and cooked to suite dividend payment purpose; hence, this study intends into look at this issue by examining the kind of association that may exist between dividend policy and earnings management in Nigerian context using a selected non-financial firms.

It is necessary to state that dividend policy is a set of corporate rules, regulations and guiding principles that a firm uses to decide on whether to pay dividend to owners (shareholders).The dividend payment decision of firms is one of the main element of corporate financial decisions which is basically served as a benefit to shareholders in return for the risk of investing their money. Dividend policy is established by taking different factors into considerations that exist within and outside the organization. Fundamentally, these factors may include but not limited to the followings: credit limit, real and financial investment chances and choices, size of the organization, including the company laws or regulations. However, the dividend policy may as well be influenced by earnings management as established by some authors [e.g. Moghri & Galogah, 2013].

In Nigeria, some authors have investigated the relationship between corporate governance and earnings management [e.g. Olayinka, 2012; Osazevbaru, 2012; Ugbede et al., 2013], but the relationship between earnings management and dividend policy has not been ascertained. As a contribution to the existing literature, this present study intends to examine the effect of earnings management on dividend policy using quoted, non-financial firms in Nigeria. The rest of this paper is sectioned as followed, thus; literature review, Methodology, discussion of results and conclusion ends the discussion.

II. Literature Review

2.1. The Concept of Earnings Management

Earnings management occurs in corporations where managers attempt to present a more favourable financial picture of the company performance through discretionary accruals [Aini et al., 2006]. Asymmetric information between managers and external information users allow managers to use their discretion in preparing and reporting accounting for their own advantage. Even though, opportunism is limited both by the accounting standards and by independent auditors, there is much recent evidence both in academic literature and the popular press suggesting that managers use their discretion over accounting numbers to achieve private gains. Healy & Wehlen (1999) explained that earnings management is an activity where managers use their discretion to mislead stakeholders about the economic performance of the company or to influence contractual outcomes.

Managers use non-rigid accounting principles and policies to manage earnings [Davidson et al., 2004]. Several studies on earnings management [such as DeFond & Jiambalvo, 1994; Gaver et al., 1995; Bowen et al., 1995; Burgstahler & Dichev, 1997; Han & Wang, 1998; Teoh et al., 1998A] have identified incentives for managers of listed companies to manage earnings [Bauwhede et al., 2003]. Incentives for earnings management include explicit contract such as bonus plans and debt covenants, implicit contract, capital markets and need for external financing, the political and regulatory process and some specific circumstances such as earnings decreases or losses. Earnings management might lead to misrepresentation of financial information as a result of conflicting interests between the agent and principle [Bukit & Iskandar, 2009].

2.2. Measuring Earnings Management

Some studies stated that earnings management occurs due to the availability of different acceptable accounting accrual choices to be applied for determining reported income [Healy & Wahlen, 1999; Dechow & Skinner, 2000]. However, there are two general ways of managing earnings; real earnings management and accruals management. The real earnings management means that the management chooses series of economic activities in order to influence the financial statements [Heemskerk & Van der Tas, 2006]. This type of earnings management normally affects cash flows. Roychowdhury (2006) stated that real earnings management is management actions that diverge from usual business practices, undertaken with the primary objective of meeting certain earnings thresholds. An example of real earnings management is the reduction in discretionary expenses, such as research and development costs, in order to increase the reported income [Cohen et al., 2007]. Another example is to sell products or services with a high discount, in order to increase the sales volume in the short term. So, real earnings management is about managing the real activities of a firm or company. Accordingly, real earnings management has to do with production and pricing decisions. Since this will be less visible for accountants and other third parties, this method of earnings management is a lot harder to detect than, for example, accruals based earnings management. In fact, it might be technical impossible in practice [Roychowdhury, 2006].

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On the other hands, accruals based earnings management is about the discretion of management in the process of selecting accounting methods and in estimating numbers. Roychowdhury (2006) explained that accrual management is manipulating accruals with no direct cash flow consequences. Accruals show on the statement of financial position, and total accruals are calculated by taking together several items in the statement of financial position. The accruals can be an indication for earnings management because the discretion of the management is needed for the recognition of some items. Besides, the timing of these items is subject to management discretion, for example the write-off of assets can be delayed which can be an indication for earnings management [Roychowdhury, 2006].

Accruals-based measures are now commonly employed in tests of the earnings management supposition. A significant obstacle connected with the implementation of this approach, however, is the need to accurately separate reported accruals into their discretionary and non-discretionary components [Peasnell et al., 1999]. According to Schipper (1989) and Dechow et al., (1995), it is very difficult to separate total accruals into discretionary accruals and non-discretionary accruals. It can be argued that it is likely that discretionary accruals are used to manage earnings. The low degree of detection of accruals by users of financial statements when used for earnings management makes it a suited instrument for implementing accounting objectives. However, since earnings management is an intrinsically unobservable process a proxy variable is needed for empirical analysis. Van Praag (2001) noted that there are two main methods for proxying earnings management currently exist in the literature. The first method, referred to as the discretionary line items method identifies specific items in the annual report that are open to a large degree of discretion in timing or amount. This method will not catch all earnings management activity but is relatively accurate for the items that are identified. The second method of measuring earnings management aims to estimate normal levels of variables and marks deviations from the estimated normal levels as discretionary adjustments that are attributed to earnings management. The most frequently used techniques for achieving this separation are the standard-Jones model [Jones, 1991] and the modified-Jones model [Dechow et al., 1995].

A well starting point is to discuss the method of estimating the discretionary accruals which was first developed by Healy (1985). Healy (1985) makes the first attempt in the literature to estimate earnings management by estimating deviations from normal levels of accruals. In his model, he defined Discretionary accruals as

$$DAC_{i,t} = \frac{\mathrm{TA_{i,t}}}{\mathrm{A_{i,t-1}}} \quad (1)$$

Where $DAC_{i,t}$ is the discretionary accruals for firm I in period t, $\mathrm{TA_{i,t}}$ and $\mathrm{A_{i,t-1}}$ are total accruals and total assets for the period t and $t-1$ for firm i. In 1986, DeAngelo assumes that first order differences in accruals have an expected value of zero. He stated that due to the nature of the accrual process it seems improbable that accruals are stable over time. In a simply sense, the model is regarded as a special case of the Healy model which is specified as

$$\mathrm{DAC_{i,t}} = \frac{\mathrm{TA_{i,t}}}{A_{i,t-1}} - \frac{TA_{i,t-1}}{A_{i,t-1}} \quad (2)$$

By scaling accruals to sales, Friedlan (1994) assumed non-discretionary accruals to be proportional to operating activity as measured by sales (S). Hence, he suggested modified DeAngelo model as

$$\mathrm{DAC_{i,t}} = \frac{TA_{i,t}}{S_{i,t}} - \frac{TA_{i,t-1}}{S_{i,t-1}} \quad (3)$$

However, the popular accrual estimation model for earnings management is the Jones model (1991). Although, DeAngelo (1986) assumed that the nature of the accrual process it seems improbable that accruals are stable over time, Jones model relaxes the assumption and She proposes a model that controls for the firm's circumstances. The total accruals are estimated with an Ordinary Least Square (OLS) regression with change in sales and level of property, plant and equipment as explanatory variables as stated below:

$$\frac{\mathrm{TA_{i,t}}}{\mathrm{A_{i,t-1}}} = \alpha_{\mathrm{o,i}} \frac{1}{A_{i,t-1}} + \alpha_{\mathrm{1,i}} \frac{\Delta\,\mathrm{REV_{i,t}}}{A_{i,t-1}} + \alpha_{\mathrm{2,i}} \frac{PPE_{i,t}}{A_{i,t-1}} + \mu_{\mathrm{i,t}} \quad (4)$$

Where $\Delta\,\mathrm{REV_{i,t}}$ is change in sales from period pervious $(t-1)$ to present (t) form (i) and PPE is gross property, plant and equipment, and μ is the random term. The estimates of the firm-specific parameters α_0, α_1 and α_2 are generated using the above equation and combine in the equation below to generate the discretionary accruals (DAC):

$$\mathrm{DAC_{i,t}} = \frac{\mathrm{TA_{i,t}}}{\mathrm{A_{i,t-1}}} - \left(\alpha_{\mathrm{o,i}} \frac{1}{A_{i,t-1}} + \alpha_{\mathrm{1,i}} \frac{\Delta\,\mathrm{REV_{i,t}}}{A_{i,t-1}} + \alpha_{\mathrm{2,i}} \frac{PPE_{i,t}}{A_{i,t-1}} + \mu_{\mathrm{i,t}}\right. \quad (5)$$

Dechow et al., (1995) argued that because sales can include earnings management through inflated receivables the fast parameter of Jones model should be corrected with the change in receivables, thus: $\frac{(\Delta REV_{i,t} - \Delta REC_{i,t})}{A_{i,t-1}}$, where $\Delta\,REC_{i,t}$ is change in sales receivables between period t and t-1 for firm i. Therefore, the equation (5) is modified as follows

$$\mathrm{DAC_{i,t}} = \frac{\mathrm{TA_{i,t}}}{\mathrm{A_{i,t-1}}} - \left(\alpha_{\mathrm{o,i}} \frac{1}{A_{i,t-1}} + \alpha_{\mathrm{1,i}} \ \frac{\Delta\,\mathrm{REV_{i,t}}}{A_{i,t-1}} - \frac{\Delta\,\mathrm{REC_{i,t}}}{A_{i,t-1}} + \alpha_{\mathrm{2,i}} \frac{PPE_{i,t}}{A_{i,t-1}} + \mu_{\mathrm{i,t}}\right. \quad (6)$$

As noted by Teoh et al., (1998) the depreciation expenses included in the estimate of total accruals may be unsuitable for earnings management, which has led some researchers to use the Jones model on current accruals by eliminating the parameter of property, plant and equipment.

2.3. The Relationship between Earnings Management and Dividend Policy

Dividends are usually paid to owners or shareholders of business at specific periods. This is apparently based on the declared earning of the company and the recommendations

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made by its directors/managers. Thus, if there are no profits made, dividends are not declared [Nnadi &Akpomi, 2008]. Managers normally decide that how many profit should be distributed as dividend and how many should be re-invested in the company in the form of retained earnings.

Although the dividend payment will directly benefit shareholders, it influences the ability of company in cumulating profit in order to use growth opportunities. The policy of whether to retained profit or to distribute dividend has implication to the company and, even in the stock market as the information content and its changes also contain information for shareholders. Each investor given to the tact type buys shares of the company that knows its dividend policy desirable. The dividend value proposed by the board usually contains information on managers' expectations about profitability and the company's future [Moghri & Galogah, 2013]. Research on earnings management and dividend policy has been well documented in the financial economics literatures; this is because dividend payment represents significant cash payments of companies' earnings made to shareholders and is considered one of the most important choices and decisions facing managers. The followings are among the related studies on the earnings management and dividend payments.

Liu (2011) investigated whether dividend payers manipulate earnings through real activities to smooth dividend levels and dividend payout ratios. Using Compustat's Execucomp database, he found evidence that dividend policy impacts both upward and downward real earnings management. In addition, he stated that payers manipulate earnings upward through real activities to mitigate the shortfall of pre-managed earnings relative to prior year dividends when pre-managed earnings are lower than dividends paid in the prior year, suggesting that dividend levels are an important earnings benchmark. He also documented a stronger relationship between changes in pre-managed earnings and real earnings management for payers than for non-payers, suggesting that dividend policies impact real earnings management. Consistent with the importance of dividend policy in real earnings management, he showed that dividend payers that follow conservative dividend policies manipulate earnings to a greater extent than dividend payers that do not follow conservative dividend policies.

Haider et al., (2012) investigated the impact of earning management on dividend policy in Pakistan. A set of listed companies from Karachi Stock Exchange (KSE) 100 indexes have been investigated to analyze the relationship from the year 2005 to 2009 in Pakistan. Dividend policy has been measured by dividend payout whereas earning management has been quantified by discretionary accruals and discretionary accrual is used as a proxy to determine earning management. Modified cross sectional model (1995) has been used to measure discretionary accruals. Regression analysis shows that earning management has impact on dividend policy that rejects our null hypothesis. But coefficient shows that the relationship is so weak that is near to no relationship. Reason behind this no impact is economic decline period, because earning management changes every year. In the decline period our earning management was increase and the companies starts downsizing divided payment.

Aurangzeb & Dilawer (2012) examined the effect of earnings management on dividend policy in Pakistani printing industry companies during the years 1966-2008. In this study, the discretionary accrual that is calculated by adjusted Jones model is used as an indicator for earnings management. Research result has shown that is significant and negative relationship between earnings management and dividend policy. Also result has shown that the relationship between control variable of return on equity and dividend policy is negative and significant but it was not observed significant relationship between the control variable of firm size and dividend per share.

Abed et al., (2012) investigated the level of conservatism in accounting policies and examines its effect on earnings management for a sample of 259 Jordanian Manufacturing companies during the period 2006-2009. The results indicate that there are differences on the level of conservatism between companies. Furthermore, the results of this study reveal that conservatism and size are negatively related to earnings management, whereas performance found to be positively related to earnings management.

Cohen & Zarowin (2010) investigated whether firms "lean against the wind", i.e., manage earnings upward to offset aggregate (market wide) undervaluation, by examining how firm-specific measures of earnings management correlate with aggregate market conditions. Leaning against the wind has been proposed by prior research as a behavioral explanation for a negative contemporaneous relation and a positive predictive relation between aggregate accruals (both total and discretionary) and aggregate market returns. It was found that no empirical evidence to support the "lean against the wind" hypothesis. In particular, when the overall market return is negative, only firms whose own return is negative have positive discretionary accruals; if firms were to lean against the wind, all firms should have positive discretionary accruals in down markets. Moreover, the tendency of firms to manage earnings upward to beat benchmarks is positively related to market-wide conditions, implying that firms lean toward the wind. Importantly, since growth may explain the relation between aggregate accruals and returns but has been omitted from standard accruals models, they also adjust their discretionary accruals measures for growth and their results are robust to this specification. Since earnings management in response to aggregate market fluctuations does not appear to explain the relation between aggregate accruals and aggregate returns, their results suggest a fundamentals-based explanation.

Wen He et al., (2012) examined whether dividends are informative about the quality of reported earnings in a global setting. They argue that corporate insiders pay dividends to signal their intention to forgo private control benefits and to report high quality earnings because they have less incentive to camouflage their expropriation activities. They also found that dividend paying firms in 31 countries exhibit smaller

magnitude of abnormal accruals and higher accruals quality. The association between dividends and earnings quality is stronger in countries with weak investor protection and poor information environment. Further analysis shows that dividend payers also have more accurate analyst earnings forecasts, less forecast dispersion, and more active informed trading. Taken together our evidence suggests that dividends signal earnings quality, particularly in countries with higher information asymmetry and higher likelihood of insider expropriating minority shareholders.

Sava Savov (2006) in his research tried to investigate the relationship between earning management and investment and the impact of both on dividend payments. Results of the study showed that earning manipulation and investment are positively related but dividend payment is negative relationship with earning.

Cheng & Leung (2010) studied that whether the insiders (director) get positive advantage of the information they have about the firm position of stocks trading in the market before any announcement made by the firms. The results found in research showed that there is strong relationship among any prevent net-insider trading activities which raise to that there is strong positive net-insider buying activities before announcement of any good news and it is significantly negative net-insider buying activities before any bad news announcement of loss or abnormal returns.

Moghri & Galogah (2013) investigated the effect of earnings management on dividend policy of listed companies in Tehran Stock Exchange is investigated. Statistical sample of the present study is formed from 140 companies during the years 2006 to 2011. For the purpose of determining the appropriate method for estimating the regression model and testing the main research hypothesis, F-Limer test and Hausman test was use, which in both tests, the fixed effects model was chosen to estimate model. Test results of the main research hypothesis have shown that there is positive and significant relationship between earnings management and dividend policy. These results indicate that with increasing in discretionary accruals of companies, their dividends percentage will increase.

Edelstein et al., (2009) examined how cash constrained U.S. Real Estate Investment Trusts (REITs) engage in Real Earnings Management (REM) to mitigate the effects of dividend payout regulations. REITs are required by Federal law to distribute 90% of taxable income as dividends to common shareholders. Since REIT taxable income typically is not publicly reported, they use the dividend payout ratio based on FFO, a voluntary accounting measure commonly used by the REIT industry, as a surrogate for the unobserved dividend-to taxable income ratio. By using the dividend-to-FFO ratio to identify REITs that may confront difficulties paying required dividends, they find that these firms are more likely to participate in REM activities by reducing revenue or increasing expenses; either activity would reduce taxable income. Further, REITs generating less cash flow from operations and having fewer opportunities to obtain funding from the general capital and debt markets are more likely to employ REM by selling fixed assets (even at a loss) to generate the necessary cash as well as to alter the dividend payment requirements. Overall, for REITs with limited available funding sources, our findings suggest REM is a viable strategy for managing regulatory dividend constraints.

Chung-Hua & Hsiang-Lin (2004) raised three issues related to the Earnings Management (EM) of banks across 48 countries. First, does earnings management of banks exist in all 48 countries? Second, what is the incentive of banks to manage earnings? Third, why does EM vary across countries? To answer these three questions, two thresholds (viz., a threshold of zero earnings and a threshold of zero earnings change) were employed. The answer to the first question above was that banks in more than two-thirds of the 48 countries sampled are found to have managed their earnings. With respect to the second question, prospect theory was used to provide an answer. The relationship between return and risk was positive for high earnings groups, but was negative for low earnings banks. Finally, as to the last question, stronger protection of investors and greater transparency in accounting disclosure can reduce banks incentives to manage earnings. Also, higher real GDP per capita decreases the degree of earnings management. It was seen that stronger enforcement of laws can counter intuitively result in stronger earnings management. However, they conclude that this effect appears in low-income countries only, and not in high-income countries.

Bukit & Iskandar (2009) examined whether high surplus free cash flow is related to earnings management. This study hypothesized managers of high surplus free cash flow companies have incentive to engage in earnings management. However, they stated that earnings management occurs less frequently when the audit committee is more independent. Independent audit committees provide an effective monitoring over earnings management practices. This study expected that the positive relationship between surplus free cash flow and earnings management is moderated by independent audit committee. Using a sample of 155 companies listed on the main board of Bursa Malaysia in 2001, the study obtained empirical evidence consistent with the prediction in all hypotheses. The study showed that independent audit committee helps companies with high surplus free cash flow to reduce income increasing earnings management practices.

Osazevbaru (2012) examined the impact of creative accounting on a firm’s value. Primary data were collected by means of questionnaires and a chi-square test was applied to test the stated hypothesis. It is found that the practice obtains in Nigeria has positive effect on firm’s value which can impact on its share price.

Ugbede et al., (2013) investigated the likelihood of virtually all key elements of corporate governance in reducing the banks earnings management in both developed and emerging economies. The Modified Jones Model was explored to investigate earnings management. Investigations into the differences in key corporate governance structure including board independence, composition, size, frequency

of board meeting, leadership independence, audit committee existence and size, audit committee chairman independence, frequency of audit committee meeting, separation of roles of chairman of board and CEO, auditors status, Basel II compliance were equally made. The sample of this study consists of all the listed Nigerian banks and Malaysian commercial banks for year 2007- 2011. For Nigerian banks the earnings management has a negative mean, which means that the total accrual was negative in the majority of the sample. On the other hand, total accruals have a positive mean for Malaysian sample banks. Consequently, the residual value in the equation was higher for Nigerian banks compared to Malaysian banks, indicating respectively, lower/higher accruals and earnings quality. Key aspects of corporate governance have positive or negative association with earnings management. While these are mostly lacking in Nigerian banks' corporate governance structure, resulting in the poor accrual and earnings quality, high accruals and earnings quality of Malaysian banks is traceable to good corporate governance.

Shehu & Abubakar (2012) examined the relationship between corporate governance on corporate financial performance when performance is stripped of the discretionary component of accruals. Secondary data were extracted from annual reports of the sample firms for the period between 2008 to 2010 and univariate OLS multiple regression was used as a tool for data analysis. The study documented that corporate governance significantly impact on both the adjusted and unadjusted firm performance in different magnitudes and directions. Specifically, it is empirically established that board composition is inversely related with true performance while a positive interaction emerges between executive compensation and firm performance regardless of the performance specification.

Olayinka (2012) examined the role of the board of directors and audit committee in preventing earnings management in Nigeria. Using a questionnaire survey, the study finds that board dominated by outside directors brings a greater breadth of experience to the firm and are in a better position to monitor and control managers, thereby reducing earnings management. It was also observed that audit committee whose members possess certain level of financial competencies would reduce the likelihood of earnings management. The study recommends that board composition should include greater proportion of independent outside directors with corporate experience. Audit committee members should be encouraged to possess a certain level of financial competencies in order to decrease the likelihood of earnings management.

Akenbor & Ibanichuka (2012) empirically investigated creative accounting practices in the Nigerian banking industry. To achieve the purpose of this study research questions were raised, hypotheses were formulated. The population of the study consisted of 25 managers and 25 accountants drawn from the twenty-five (25) recapitalized banks currently operating in the Federal Capital Territory (FCT)- Abuja. The data generated for this study were analysed through mean scores while the stated hypotheses were statistically tested with Z-test. The findings revealed that the major reason for creative accounting practices in Nigerian banks is to boost the market value of shares; users of accounting information are adversely affected by the practice.

In conclusion, few studies have been identified concerning the relationship between corporate governance and earnings management in Nigeria. However, this present study intends to investigate the effects of earnings management on dividend policy in Nigeria.

III. METHODOLOGY

The multiple regression analysis using Ordinary Least square (OLS) was adapted to test the relationship between dividend policy and earnings management in quoted, but non-financial institutions in Nigeria. Data were sourced from annual reports and accounts of thirteen (13) selected non- financial institutions in Nigeria for the year 2012 only.

3.1. Model Specification

A firm's dividend essentially indicates the strength of the firm's future cash flows. A review of related previous studies shows that the main factors that influence a firm's dividend decisions are cash flow considerations, investment returns, after tax earnings, liquidity, future earnings, past dividend practices, inflation, interest, legal requirements, the future growth projection ownership structure and size of firms [Brigham, 1995; Foong et al., 2007; Uwuigbe et al., 2012]. Following the above assertions, the model specified below follow the model specification of Moghri & Galogah (2013) and modified to examine the effects of earnings management on dividend payment and in Nigeria.

$$D_i = \gamma_0 + \gamma_1 DAC_i + \gamma_2 SIZE_i + \gamma_3 ROE_i + \gamma_4 LEV_i + \mu_i \quad (7)$$

Where γ_0 is the intercept, γ_1, γ_2, γ_3, and γ_4 are the coefficients of the variables with γ_2, γ_3, and γ_4 represent control variables in the model. It is expected that $\gamma_1, \gamma_2, \gamma_3, > 0$ and $\gamma_4 < 0$

3.2. Measurement of Variables

D_i = Dividend policy of firm i. It measured as $D_i = \frac{DPS}{EPS} = \frac{Dividend\ per\ share}{Earnins\ per\ share}$

DAC_i = earnings management of firm i. It is proxy by Discretionary accrual calculated using Modified Jones model as specified in equation (6) above.

$SIZE_i$ = size of firm i. It is calculated using the natural logarithm of total assets of a company

ROE_i = Return on equity of firm i in year t. It is measured using the ratio of net profit of company to total equity.

LEV_i = financial leverage of firm i in year t. It is calculated using the ratio of total debt to total assets.

μ_t = the error term for firm i

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IV. DISCUSSION OF RESULTS

The follow results were generated after the estimation of equation (7) as shown below;

Variables	Coefficients	Std. Error	t-statistic	Prob.
C	-2.856224	1.495019	-1.910494	0.0925
DAC	-0.707104	0.694231	-1.018541	0.3382
LEV	0.109179	0.309650	0.352588	0.7335
ROE	0.204538	0.050528	4.048048	0.0037
SIZE	0.193192	0.100188	1.928298	0.0900
		R-Square	0.717025	
		Adj. R-Square	0.575538	
		F-Statistic	5.0678	
		Pro.(F-Statistic)	0.024802	
		Durbin Watson	2.837	

Source: Authors' Computation from E-view 7

The table above shows the estimated result of equation (7). The P-value of F-statistic is equal to 0.024802 which indicate that the model is statistically significant in general. R- square shows that the model explained 71.7% of total variations of the dependent variable. It means that 71.7% of the changes in dependent variable (dividend policy) are described by both independent and control variables. As a point of focus, the hypothesis of this study states that there is a significant relationship between earnings management and dividend policy in all companies selected for the study. As observed, the results show that earnings management variable (discretionary accruals) has a coefficient of -0.707104 with t-statistic of -1.018541 (p-value= 0.3382). Thus, from the result, it can be stated that there is no significant and positive relationship between earnings management and dividend policy at a significant level of 5%. Hence, the study does not support the view that there is positive relationship between earned management and dividend policy. The results also show that there is positive and significant relationship between firm size and dividend policy. In addition, the study also supports the fact that there is a positive and significant relationship between firm's profitability (ROE) and dividend policy. However, the result shows that there is a positive, but insignificant relationship between financial leverage variables and the dividend policy.

V. CONCLUSION

This study focused on the effect of earnings management on dividend policy in Nigeria. Thirteen quoted non-financial institutions in Nigerian stock exchange were selected for the study. In this study, the dividend policy is used as the explained variable, while earnings management serves as the explanatory variable. Firm size, return on equity and financial leverage were used as control variables. The results did not support the fact that earning management expressed positive relationship with dividend policy. Although, as proved by Moghri & Galogah (2013), managers normally have a set of objectives, goals and incentives, and can act in an opportunistic behaviors, manipulate or manage earnings to stabilize profits of the company. This is performed mainly to encourage investors to invest in the equity of the company. By doing this, it will increase the share value of the company in the capital market. However, this present study fails to be consistent with the view of Moghri & Galogah (2013). It supports the fact that earnings management has negative relationship with dividend policy of a firm and it is not significant in the determination of dividend payout of every firm. This view shows that there are effective corporate governance mechanisms in the selected firms in Nigeria. It means if managers increase discretionary accruals of company, dividend percentage will not increase, even not significant in the determination of dividend policy in Nigeria. This result is consistent with research results of Haider et al., (2012) and Aurangzeb & Dilawe (2012).

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