



## Corporate Governance Mechanisms and Creative Accounting Practices: Empirical Insight from Nigerian Listed Insurance Companies

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**Abstract: Objectives** - This study examines the connection between corporate governance (CG) metrics and creative accounting practices in Nigerian Exchange Group-listed insurance companies. **Prior Work** - The study seeks to address a critical gap in emerging-market research on the role of weak institutional frameworks in enabling earnings manipulation. **Approach** -Using panel regression analysis, we analyze 80 firm-year data from 16 listed insurance firms spanning a five-year period (2020–2024). Creative accounting practices are proxied by discretionary accruals using the Modified Jones Model, while board size, board independence, audit committee effectiveness, and ownership concentration represent CG. **Results** -Contrary to theoretical expectations, the results reveal no statistically significant relationships between the examined metrics of CG and the creative accounting practices proxy. **Implications** -These outcomes indicate the insufficiency of formal governance structures in constraining earnings manipulation in contexts characterized by weak enforcement and institutional voids and stress the need to examine informal institutions' enforcement mechanisms and cultural factors that shape accounting behavior in emerging markets. **Value** - This study contributes to the limited empirical evidence on CG effectiveness in African insurance markets, challenging the universal applicability of agency theory-based governance prescriptions, highlighting the need for insurance companies to prioritize substantive governance reforms over symbolic compliance.

**Keywords** – Discretionary accruals; Nigeria; Emerging markets; Board independence; Audit committee

### 1. Introduction

Creative accounting practices, characterized by the strategic manipulation of financial reporting within legal boundaries to present a desired financial position, pose significant threats to financial market integrity and stakeholder confidence (Sumsb, 2025; Osazevbaru, 2023). In emerging markets, where institutional frameworks are often weak and enforcement mechanisms inadequate, the prevalence and

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consequences of such practices may be particularly severe (Rahman et al., 2023; Abed et al., 2024). The insurance sector, with its complex accounting standards, long-term liabilities, and information asymmetries, presents a particularly fertile ground for creative accounting practices, especially with the introduction of new reporting standards (Deloitte, 2024; IAIS, 2025).

Nigeria's insurance industry, despite regulatory reforms and corporate governance codes introduced over the past two decades, continues to face challenges related to financial reporting quality and stakeholder trust (Bello et al., 2024). High-profile corporate failures and regulatory interventions in the sector have raised questions about the effectiveness of corporate governance mechanisms in constraining opportunistic managerial behavior (Okonkwo & Ibrahim, 2023). While corporate governance is theoretically positioned as a critical mechanism for mitigating agency problems and ensuring financial reporting integrity (Jensen & Meckling, 2019; Al-Faryan, 2025), empirical evidence from emerging African markets remains limited and inconclusive (Bishagazi, 2021; Oyinkari, 2025).

The relationship between corporate governance and creative accounting practices has been extensively studied in developed markets, with mixed results (Liu et al., 2022; Stolowy, 2024). However, the institutional context of emerging markets, characterized by weak legal enforcement, concentrated ownership structures, limited investor protection, and nascent capital markets, may fundamentally alter the relationship between governance and accounting quality (Biswas et al., 2022; Bhasin, 2023). Nigeria, as Africa's largest economy with a rapidly evolving financial services sector, provides a compelling context for examining whether formal governance structures can effectively constrain creative accounting in institutional environments marked by significant voids.

Despite the introduction of the Nigerian Code of Corporate Governance (2018) and sector-specific regulations by the National Insurance Commission (NAICOM), concerns persist about the quality of financial reporting in Nigerian insurance companies. The sector has experienced regulatory interventions, license revocations, and public concerns about solvency and claims-paying ability (NAICOM, 2023). These challenges raise fundamental questions about whether the adopted corporate governance mechanisms, largely transplanted from developed-market contexts, are effective in the Nigerian institutional environment.

While the international literature has extensively examined the relationships between corporate governance and earnings management, research specific to African insurance markets remains sparse. Existing Nigerian studies have primarily focused on banking and manufacturing sectors (Fodio et al., 2013; Uwuigbe et al., 2015), with limited attention to the insurance industry despite its unique characteristics and systemic importance. Furthermore, most prior studies have examined individual governance mechanisms in isolation, failing to provide a comprehensive assessment of multiple governance dimensions simultaneously.

This study addresses these gaps by:

**Sectoral focus:** Providing sector-specific evidence from Nigerian insurance companies, addressing the paucity of research in African insurance markets where accounting complexity and information asymmetries are particularly pronounced.

**Comprehensive governance assessment:** Simultaneously examining multiple governance mechanisms (board size, board independence, audit committee effectiveness, and ownership concentration) to provide a holistic understanding of governance effectiveness.

Recent data: Utilizing contemporary data (2020–2024) that captures the post-2018 corporate governance code era and the COVID-19 pandemic period, offering insights into governance effectiveness under recent regulatory and economic conditions.

Methodological rigor: Employing panel regression techniques with robust controls for firm-specific heterogeneity and endogeneity concerns, addressing methodological limitations in prior emerging market studies.

Institutional context: Contributing to the growing literature on institutional theory and governance effectiveness by examining how weak institutional environments may moderate governance-accounting quality relationships.

The primary objective of this study is to examine the relationship between corporate governance mechanisms and creative accounting practices in Nigerian listed insurance companies. Specifically, the study seeks to:

- i. Assess the relationship between board size and creative accounting practices;
- ii. Examine the relationship between board independence and creative accounting practices;
- iii. Investigate the relationship between audit committee effectiveness and creative accounting practices;
- iv. Analyze the relationship between ownership concentration and creative accounting practices.

The study addresses the following research questions:

- i. What is the relationship between board size and creative accounting practices in Nigerian insurance companies?
- ii. How does board independence relate to creative accounting practices in the Nigerian insurance sector?
- iii. To what extent does audit committee effectiveness influence creative accounting practices?
- iv. What is the relationship between ownership concentration and creative accounting practices?

The remainder of this paper is organized as follows: Section 2 reviews relevant theoretical and empirical literature, develops the conceptual framework, and presents the hypotheses. Section 3 encompasses the methodology, including the selection of the sample, operationalization of variables, and analytical techniques. In Section 4, the empirical results are presented, and in Section 5, the findings are related to existing literature and theory. Section 6 concludes with implications for theory, practice, and policy, as well as limitations and directions for future research.

## **2. Literature Review**

### **2.1. Theoretical Framework**

In this study, we used agency and institutional theories to provide a relevant theoretical basis.

#### **2.1.1. Agency Theory**

Agency theory, pioneered by Jensen and Meckling (1976), provides the primary theoretical lens for understanding the relationship between corporate governance and creative accounting practices. The

theory posits that the separation of ownership and control in modern corporations creates inherent conflicts of interest between principals (shareholders) and agents (managers). Managers, acting as agents, may pursue self-interested objectives that diverge from shareholder wealth maximization, including engaging in earnings manipulation to meet performance targets, secure bonuses, or conceal poor performance (Fama & Jensen, 1983).

Corporate governance mechanisms are theoretically designed to align managerial interests with shareholder interests and monitor managerial behavior, thereby reducing agency costs (Shleifer & Vishny, 1997). Effective boards of directors, independent audit committees, and concentrated ownership are expected to enhance monitoring intensity and constrain opportunistic managerial behavior, including creative accounting practices (Peasnell et al., 2005).

### **2.1.2. Institutional Theory**

While agency theory provides a rational-economic explanation of governance effectiveness, institutional theory offers complementary insights, particularly relevant to emerging-market contexts (DiMaggio & Powell, 1983; Scott, 2008). Institutional theory suggests that organizational practices, including corporate governance structures, are shaped by the broader institutional environment encompassing regulatory frameworks, cultural norms, and social expectations.

In emerging markets characterized by weak formal institutions, organizations may adopt governance structures for legitimate purposes (isomorphic pressures) rather than for substantive monitoring effectiveness (Meyer & Rowan, 1977). This “decoupling” between formal structures and actual practices may explain why governance mechanisms that are effective in developed markets fail to constrain creative accounting in emerging market contexts (Aguilera & Jackson, 2003). The Nigerian institutional environment, characterized by weak legal enforcement, limited investor activism, and relationship-based business practices, may exemplify such institutional voids (Khanna & Palepu, 2000).

## **2.2. Creative Accounting: Conceptualization and Measurement**

Creative accounting, also termed earnings management or income smoothing, refers to the use of accounting discretion to alter financial reports to either mislead stakeholders about underlying economic performance or to influence contractual outcomes dependent on reported accounting numbers (Healy & Wahlen, 1999; Stolowy et al., 2023). Earnings management is defined as purposeful intervention in the external financial reporting process with the intent to obtain private gain, often driven by agency conflicts (Schipper, 1989; Zuo & Jiao, 2024).

Creative accounting practices range from conservative choices within Generally Accepted Accounting Principles (GAAP) to aggressive earnings manipulation and outright fraud (Dechow & Skinner, 2000).

While not always illegal, creative accounting undermines the reliability and comparability of financial information, impairing capital allocation efficiency and stakeholder decision-making (Levitt, 1998; Stolowy et al., 2023).

In the insurance sector, creative accounting opportunities are particularly abundant due to the industry's unique characteristics: complex reserve estimation, long-tail liabilities, significant management judgment in loss provisioning, and intricate reinsurance arrangements (Grace, 2010; Mulyadi et al., 2023). Insurance managers may manipulate loss reserves, defer policy acquisition

costs, or engage in finite reinsurance transactions to smooth earnings or meet regulatory capital requirements (Becker et al., 2013; Zuo & Jiao, 2024).

The most widely used empirical proxy for creative accounting is discretionary accruals, the component of total accruals attributed to managerial discretion rather than normal business operations (Jones, 1991). The Modified Jones Model (Dechow et al., 1995) has become the dominant approach for estimating discretionary accruals, separating total accruals into non-discretionary (expected) and discretionary (unexpected) components (Mulyadi et al., 2023).

## 2.3. Corporate Governance Mechanisms and Creative Accounting

### 2.3.1. Board Size

Board size represents a fundamental structural characteristic of corporate governance, with theoretical and empirical debates about its optimal level. Two competing perspectives dominate the literature. Resource dependence theory suggests that larger boards provide greater expertise, diverse perspectives, and enhanced monitoring capacity, thereby improving governance effectiveness (Nawaz & Kousar, 2022; Orazalin, 2023). Larger boards may have more members with financial expertise and industry knowledge necessary to detect creative accounting practices.

Conversely, agency theory-based arguments suggest that larger boards face coordination problems, free-riding, and the diffusion of responsibility, thereby reducing monitoring effectiveness (Githaiga et al., 2022; Kojo et al., 2024). Larger boards may be less cohesive, experience communication difficulties, and be more easily dominated by powerful CEOs, thereby failing to constrain opportunistic behavior.

Empirical evidence has been mixed in recent years. Shah et al. (2022) find that larger boards are associated with lower discretionary accruals in U.S. firms, supporting the resource dependence view. However, Saha et al. (2024) document an inverse relationship between board size and firm value, suggesting governance inefficiencies in larger boards. In emerging markets, Lawal et al. (2024) find no significant relationship between board size and earnings management in UK firms, while Githaiga et al. (2022) report that smaller boards are more effective in constraining earnings management. In contrast, Githaiga et al. (2022) report that larger boards in the East African Community may experience higher levels of earnings management due to coordination challenges.

In the Nigerian context, where corporate governance practices are still evolving, and board appointments may be influenced by political and social connections rather than expertise, the effectiveness of board size in constraining creative accounting remains an empirical question.

*H<sub>1</sub>: There is a significant negative relationship between board size and creative accounting practices in Nigerian insurance companies.*

### 2.3.2. Board Independence

Board independence, measured by the proportion of non-executive or independent directors, is widely regarded as a critical governance mechanism for enhancing monitoring effectiveness (Fama & Jensen, 1983). Independent directors, lacking financial ties to management, are theoretically better positioned to objectively monitor managerial behavior and challenge questionable accounting practices (Beasley, 1996).

Regulatory frameworks globally, including Nigeria's Corporate Governance Code (2018), mandate minimum proportions of independent directors, reflecting the widespread belief in their monitoring value. The Nigerian code requires that at least one-third of board members be independent directors, with the expectation that they will enhance board oversight and protect minority shareholder interests.

Empirical evidence generally supports the monitoring role of independent directors in constraining earnings management. Klein (2002) finds that board independence is negatively associated with abnormal accruals in U.S. firms. Peasnell et al. (2005) report that UK firms with higher proportions of outside directors are less likely to engage in income-increasing earnings management. Xie et al. (2003) document that board independence, particularly when combined with financial expertise, is effective in limiting discretionary accruals.

However, the effectiveness of independent directors may be context dependent. In emerging markets with weak legal institutions and relationship-based business cultures, the independence of non-executive directors may be more nominal than substantive (Young et al., 2008). Directors may be appointed based on social connections rather than expertise, and cultural norms may discourage challenging management even among formally independent directors (Claessens & Yurtoglu, 2013).

*H<sub>2</sub>: There is a significant negative relationship between board independence and creative accounting practices in Nigerian insurance companies.*

### **2.3.3. Audit Committee Effectiveness**

Audit committees serve as specialized board subcommittees responsible for overseeing financial reporting processes, internal controls, and external audit relationships (DeZoort et al., 2002). Effective audit committees are expected to enhance financial reporting quality by scrutinizing accounting policies, challenging aggressive accounting treatments, and ensuring auditor independence (Klein, 2002).

Audit committee effectiveness is multidimensional, encompassing independence, financial expertise, meeting frequency, and size (Bédard et al., 2004). The Nigerian Corporate Governance Code (2018) and NAICOM regulations specify audit committee composition requirements, including mandatory independence and financial literacy standards.

Empirical research consistently demonstrates that effective audit committees constrain earnings management. Klein (2002) finds that audit committee independence is negatively related to abnormal accruals. Xie et al. (2003) report that audit committees with financial expertise are more effective in limiting discretionary accruals. Bédard et al. (2004) document that audit committee governance characteristics, including independence and financial expertise, are associated with a lower likelihood of aggressive earnings management.

Abbott et al. (2004) find that audit committees meeting at least four times annually and composed entirely of independent directors with at least one financial expert are associated with a lower incidence of financial restatements. In the insurance sector specifically, Becker et al. (2013) find that audit committee quality is negatively associated with reserve manipulation.

In emerging markets, however, audit committee effectiveness may be compromised by limited financial expertise, inadequate resources, and cultural factors that discourage challenging management (Lin et al., 2008). The Nigerian context, with its shortage of qualified accounting professionals and weak enforcement of governance standards, may limit the effectiveness of audit committees.

*H<sub>3</sub>: There is a significant negative relationship between audit committee effectiveness and creative accounting practices in Nigerian insurance companies.*

#### **2.3.4. Ownership Concentration**

Ownership structure represents a fundamental governance mechanism that influences managerial monitoring intensity and incentives (Shleifer & Vishny, 1997). Two competing theoretical perspectives characterize the relationship between ownership concentration and accounting quality.

The monitoring hypothesis, grounded in agency theory, suggests that concentrated ownership enhances monitoring effectiveness by providing large shareholders with both the incentive and power to monitor management closely (Shleifer & Vishny, 1986). Large shareholders, having significant wealth at stake, are motivated to invest in monitoring activities and possess the voting power to discipline underperforming or opportunistic managers. This enhanced monitoring should constrain creative accounting practices.

Conversely, the entrenchment hypothesis suggests that concentrated ownership may facilitate earnings manipulation when controlling shareholders pursue private benefits of control at the expense of minority shareholders (Claessens et al., 2002). In emerging markets characterized by weak minority shareholder protection, controlling shareholders may collude with management to manipulate earnings for tunneling purposes, tax avoidance, or regulatory forbearance (Leuz et al., 2003).

Empirical evidence is mixed and context-dependent. Warfield et al. (1995) find that managerial ownership is associated with lower discretionary accruals in U.S. firms, supporting the alignment hypothesis. However, Fan and Wong (2002) report that ownership concentration is associated with lower earnings informativeness in East Asian firms, suggesting that concentrated ownership facilitates earnings manipulation in weak institutional environments.

In Nigeria, ownership structures are typically concentrated, with founding families, institutional investors, or government entities holding significant stakes (Okpara, 2011). The effectiveness of concentrated ownership in constraining creative accounting depends on whether large shareholders act as monitors or expropriators.

*H<sub>4</sub>: There is a significant relationship between ownership concentration and creative accounting practices in Nigerian insurance companies.*

#### **2.4. Empirical Evidence from Emerging Markets**

Emerging market research on corporate governance and earnings management reveals important contextual nuances. Leuz et al. (2003) examine earnings management across 31 countries and find that it is more prevalent in countries with weak investor protection and less developed capital markets. Their findings suggest that legal and institutional environments fundamentally shape the effectiveness of corporate governance mechanisms.

Studies from African markets are limited but revealing. Fodio et al. (2013) examine Nigerian listed firms and find that board and audit committee independence are negatively associated with earnings management. Uwuigbe et al. (2015) report mixed results for governance mechanisms in Nigerian banks. However, these studies focus primarily on banking and manufacturing sectors, with limited attention to insurance companies.

Research from other emerging markets provides additional insights. Peasnell et al. (2005) find that board monitoring is effective in constraining earnings management in UK firms. Chtourou et al. (2001) report that board and audit committee characteristics influence earnings management in Canadian firms. However, the transferability of these findings to African contexts with weaker institutions remains questionable.

## **2.5. Conceptual Framework**

Based on agency theory and institutional theory, this study proposes a conceptual framework in which corporate governance mechanisms (board size, board independence, audit committee effectiveness, and ownership concentration) influence creative accounting practices, measured by discretionary accruals. The framework recognizes how governance effectiveness may be tempered by institutional factors, such as regulatory enforcement, legal protections, and cultural factors.

The framework posits that effective corporate governance mechanisms should constrain creative accounting practices by enhancing monitoring intensity, reducing information asymmetry, and aligning managerial incentives with shareholder interests. However, in weak institutional environments characterized by limited enforcement and relationship-based business practices, formal governance structures may be insufficient to constrain opportunistic accounting behavior.

## **3. Methodology**

### **3.1. Study's Design and Philosophical Orientation**

This study adopts a positivist research philosophy and employs a quantitative research design using secondary data. The positivist approach is appropriate for testing hypothesized relationships between corporate governance mechanisms and creative accounting practices using objective, empirical data (Creswell, 2014). The study employs an explanatory research design to quantify the association between independent variables (governance mechanisms) and the dependent variable (creative accounting practices).

### **3.2. Population and Sample**

The population for this study comprises all listed insurance firms on the Nigerian Exchange Group (NGX) as of December 2024. The Nigerian insurance sector includes both life and non-life (general) insurance companies, as well as composite insurers offering both product lines.

#### **3.2.1. Sample Selection**

The sample selection process employed purposive sampling based on the following criteria:

- 3) Insurance companies listed on the NGX throughout the study period (2020–2024);
- 4) Availability of complete financial statements and annual reports for all five years;
- 5) Availability of corporate governance disclosure data;
- 6) Companies not under regulatory suspension or liquidation during the study period.

After applying these criteria, the final sample consists of 16 insurance companies observed over five years (2020–2024), yielding 80 firm-year observations. This sample represents approximately 70% of the listed insurance companies in Nigeria, providing adequate representation of the sector.

The sample includes both life and non-life insurance companies, reflecting the diversity of the Nigerian insurance market. While the sample size is modest by developed-market standards, it is comparable to other emerging-market studies and represents a substantial proportion of the listed insurance sector in Nigeria.

### 3.3. Data Sources and Collection

Data for this study were collected from multiple secondary sources:

1. Financial statements: Audited annual financial statements (2020–2024) obtained from company websites, the NGX website, and the Nigerian Insurance Association database;
2. Annual reports: Corporate governance disclosures extracted from annual reports, including board composition, audit committee characteristics, and ownership structure;
3. Regulatory filings: Supplementary data from NAICOM regulatory filings and disclosures;
4. Market data: Share price and market capitalization data from the NGX.

All financial data was verified for consistency across sources. Where discrepancies existed, primary source documents (audited financial statements filed with regulatory authorities) were used as the definitive reference.

### 3.4. Variable Measurement

#### 3.4.1. Dependent Variable: Creative Accounting Practices

Creative accounting practices are measured using discretionary accruals estimated from the Modified Jones Model (Dechow et al., 1995). The Modified Jones Model is the most widely used approach in earnings management research and has been validated across diverse contexts (Dechow et al., 2012).

The estimation process involves two stages:

Stage 1: Estimation of Non-Discretionary Accruals

Total accruals (TA) are calculated as:

$$TA_{it} = (\Delta CA_{it} - \Delta Cash_{it}) - (\Delta CL_{it} - \Delta Debt_{it}) - Dep_{it}$$

Where:

- $\Delta CA$  = Change in current assets
- $\Delta Cash$  = Change in cash and cash equivalents
- $\Delta CL$  = Change in current liabilities
- $\Delta Debt$  = Change in short-term debt
- $Dep$  = Depreciation and amortization expense

Total accruals are then scaled by lagged total assets to control for firm size.

We rely on the Modified Jones Model to estimate non-discretionary accruals (NDA) as follows:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_1 \left( \frac{1}{A_{it-1}} \right) + \alpha_2 \left( \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} \right) + \alpha_3 \left( \frac{PPE_{it}}{A_{it-1}} \right) + \varepsilon_{it}$$

Where:

- 1)  $A_{it-1}$  = Total assets at the end of year t-1
- 2)  $REV_{it}$  = Change in revenues from year t-1 to year t
- 3)  $REC_{it}$  = Change in net receivables from year t-1 to year t
- 4)  $PPE_{it}$  = Gross property, plant, and equipment at the end of year t
- 5)  $\varepsilon_{it}$  = Error term

Stage 2: Calculation of Discretionary Accruals

Further, we estimate discretionary accruals (DA) by deducting estimated NDA from the total accruals and estimated non-discretionary accruals:

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

Our primary measure of creative accounting practices is the absolute value of discretionary accruals (|DA|), as both income-increasing and income-decreasing earnings management represent departures from faithful representation.

### 3.4.2. Independent Variables: Corporate Governance Mechanisms

Board Size (BSIZE)

Board size is measured as the total number of directors serving on the board of directors at the end of each fiscal year. This comprises both executive and non-executive directors. Board size data are extracted from annual reports and corporate governance disclosure sections.

Board Independence (BIND)

Board independence is measured as the proportion of independent non-executive directors to total board size:

$$BIND = \frac{\text{No. of independent directors}}{\text{Total No. of directors}}$$

Independent directors are identified in accordance with the Nigerian Corporate Governance Code (2018), which requires independence from management, substantial shareholders, and material business relationships with the company.

Audit Committee Effectiveness (ACEFF)

We used a composite index to assess audit committee effectiveness, incorporating multiple dimensions of audit committee quality. Following Bédard et al. (2004) and Abbott et al. (2004), the index includes:

1. Independence: Proportion of independent members (1 if  $\geq 75\%$  independent, 0 otherwise)

2. Financial expertise: Presence of at least one financial expert (1 if yes, 0 otherwise)
3. Meeting frequency: Number of meetings per year (1 if  $\geq 4$  meetings, 0 otherwise)
4. Size: Number of members (1 if between 3–6 members, 0 otherwise)

The audit committee effectiveness score ranges from 0 to 4, with higher scores indicating more effective audit committees.

#### Ownership Concentration (OWNCON)

Ownership concentration is measured as the percentage of shares held by the largest/top shareholder. This measure captures the extent to which ownership is concentrated in the hands of a dominant shareholder, reflecting monitoring intensity and potential for entrenchment.

Alternative measures, including the Herfindahl index and top 5 shareholder concentration, were considered, but the largest shareholder measure was selected for parsimony and interpretability.

### 3.4.3. Control Variables

As identified in prior literature, we introduced some firm-specific characteristics as control variables.

#### Firm Size (SIZE)

Firm size is measured as the natural logarithm of total assets. Larger firms may face greater public scrutiny and have more sophisticated internal controls, potentially constraining creative accounting (Githaiga et al., 2022; Watts & Zimmerman, 1986). Conversely, larger firms may be more complex and offer greater opportunities for earnings manipulation.

#### Leverage (LEV)

Leverage is determined as the ratio of total debt to total assets. Highly leveraged firms may engage in income-increasing earnings management to avoid debt covenant violations or to improve creditworthiness (Ibrahim et al., 2022; Assidi et al., 2022).

#### Profitability (ROA)

Profitability is measured as return on assets (net income divided by total assets). Firm performance may influence both the incentive and the opportunity to engage in earnings management, with poorly performing firms potentially more motivated to inflate earnings (Garg & Meentou, 2022; Kamlesh et al., 2023).

#### Firm Age (AGE)

Firm age is measured as the number of years since incorporation. Older, more established firms may have more stable earnings patterns and stronger internal controls, potentially reducing the need for creative accounting.

### 3.5. Model Specification

The study employs panel regression analysis to test the hypothesized relationships. Panel data methods are appropriate because they control unobserved firm-specific heterogeneity and provide more efficient estimates than cross-sectional or time-series approaches (Baltagi, 2005).

The baseline regression model is specified as:



2. Heteroscedasticity: The Breusch-Pagan test is used to uncover heteroscedasticity. If heteroscedasticity is present, robust standard errors are employed.
3. Autocorrelation: The Wooldridge test for autocorrelation in panel data is conducted. If autocorrelation is detected, robust standard errors clustered at the firm level are used.
4. Normality: The Shapiro-Wilk test is used to assess the normality of residuals, though panel regression is relatively robust to departures from normality with an adequate sample size.
5. Hausman Test: The Hausman specification test is performed to select between the FE and RE models.

### 3.7. Ethical Considerations

This study draws entirely on secondary sources of data from published financial statements, annual reports, and regulatory filings. All data sources are properly cited, and the study adheres to academic integrity standards regarding data handling and reporting.

## 4. Empirical Results

### 4.1. Descriptive Statistics

Table 1 presents descriptive statistics for all variables used in the analysis. The mean value of discretionary accruals ( $|DA|$ ) is 0.087, with a standard deviation of 0.064, suggesting reasonable variability in creative accounting practices across the sample. The range of discretionary accruals (0.012 to 0.289) suggests that while some firms exhibit minimal earnings management, others engage in substantial accounting discretion.

**Table 1. Descriptive Statistics**

Variable	Mean	Std. dev.	Min	Max	Obs.
$ DA $	0.087	0.064	0.012	0.289	80
BSIZE	9.425	2.138	6.000	15.000	80
BIND	0.412	0.118	0.167	0.667	80
ACEFF	2.875	0.894	1.000	4.000	80
OWNCON	0.487	0.176	0.152	0.823	80
SIZE	16.834	1.247	14.326	19.542	80
LEV	0.623	0.184	0.234	0.891	80
ROA	0.042	0.067	-0.134	0.187	80
AGE	38.625	18.342	12.000	68.000	80

Source: Computed by the authors (2026)

Note:  $|DA|$  = Absolute discretionary accruals; BSIZE = Board size; BIND = Board independence; ACEFF = Audit committee effectiveness; OWNCON = Ownership concentration; SIZE = Natural log of total assets; LEV = Leverage; ROA = Return on assets; AGE = Firm age in years.

Board size averages 9.4 directors, ranging from 6 to 15, with most firms complying with NAICOM's minimum board size requirement. Board independence averages 41.2%, slightly above the minimum recommended by the Nigerian Corporate Governance Code of 1/3 independent directors, though with

considerable variation (16.7% to 66.7%). This suggests that while most firms meet regulatory minimums, there is heterogeneity in the extent of board independence.

Audit committee effectiveness scores average 2.88 out of 4, indicating that most firms meet some but not all of the best practice criteria for audit committee quality. Ownership concentration is substantial, with the largest shareholder holding an average of 48.7% of shares, reflecting the concentrated ownership structures typical of emerging markets.

Control variables show expected patterns: firm size (measured as the log of total assets) averages 16.83, indicating substantial variation in firm scale. Leverage is relatively high (mean = 62.3%), consistent with the capital-intensive nature of insurance operations. Profitability (ROA) averages 4.2%, with some firms experiencing losses during the study period. Firm age averages 38.6 years, ranging from 12 to 68, reflecting a mix of established and relatively new insurers.

#### 4.2. Correlation Analysis

Table 2 shows the results of the Pearson correlation matrix for all variables. The correlation analysis provides preliminary insights into bivariate relationships and helps identify potential multicollinearity concerns.

**Table 2. Correlation Matrix**

Variable	DA	BSIZE	BIND	ACEFF	OWNCON	SIZE	LEV	ROA	AGE
DA	1.000								
BSIZE	-0.082	1.000							
BIND	-0.134	0.287**	1.000						
ACEFF	-0.096	0.342**	0.418**	1.000					
OWNCON	0.073	-0.198*	-0.312**	-0.245*	1.000				
SIZE	-0.156	0.523**	0.267**	0.389**	-0.178	1.000			
LEV	0.214*	0.145	-0.087	0.034	0.112	0.298**	1.000		
ROA	-0.287**	0.178	0.234*	0.198*	-0.156	0.312**	-0.423**	1.000	
AGE	-0.067	0.412**	0.189*	0.278**	-0.234*	0.467**	0.089	0.123	1.000

Source: Computed by the authors (2026)

Note:

\*Means the correlation is significant at 1%, while \*\* means the correlation is significant at the 5% (2-tailed).

The correlation between discretionary accruals and governance variables is generally weak and statistically insignificant. Board size ( $r = -0.082$ ,  $p > 0.05$ ), board independence ( $r = -0.134$ ,  $p > 0.05$ ), and audit committee effectiveness ( $r = -0.096$ ,  $p > 0.05$ ) show negative but non-significant correlations with creative accounting practices. Ownership concentration shows a positive but weak association ( $r = 0.073$ ,  $p > 0.05$ ), though also non-significant.

Among control variables, ROA shows a significantly negative association with discretionary accruals ( $r = -0.287$ ,  $p < 0.01$ ), suggesting that more profitable firms engage in less earnings management. Leverage shows a positive correlation with discretionary accruals ( $r = 0.214$ ,  $p < 0.05$ ), consistent with the debt covenant hypothesis.

Among the independent variables, the result shows a generally moderate correlation, with the highest correlation between board size and firm size ( $r = 0.523$ ,  $p < 0.01$ ). However, none of the correlation values is above 0.60, suggesting that multicollinearity is unlikely to be a severe problem. This is confirmed by subsequent VIF analysis.

### 4.3. Multicollinearity Diagnostics

Table 3 presents the Variance Inflation Factor (VIF) statistics to detect multicollinearity among the independent variables.

**Table 3. Variance Inflation Factor (VIF) Analysis**

Variable	VIF	Tolerance (1/VIF)
BSIZE	2.34	0.427
BIND	1.87	0.535
ACEFF	2.12	0.472
OWNCON	1.56	0.641
SIZE	2.89	0.346
LEV	1.67	0.599
ROA	1.78	0.562
AGE	2.23	0.448
Mean VIF	2.06	

*Source: Computed by the authors (2026)*

In Table 3, the VIF values for the variables are all below the established threshold of 10, with an average of 2.06, indicating no multicollinearity in the analysis. Furthermore, the tolerance values (1/VIF) are all above 0.30, confirming the absence of multicollinearity.

### 4.4. Panel Regression Results

#### 4.4.1. Model Selection: Hausman Test

The Hausman specification test was conducted to determine whether fixed- or random-effects estimation is appropriate. The test results are presented in Table 4.

**Table 4. Hausman Specification Test**

Test	Chi-square statistic	Degrees of freedom	p-value	Decision
Hausman test	18.47	8	0.018	Reject $H_0$ (fixed effects preferred)

*Source: Computed by the authors (2026)*

The Hausman test yields a chi-square statistic of 18.47 ( $p = 0.018$ ), rejecting the null hypothesis that the random effects model is appropriate. This indicates that firm-specific effects are correlated with the independent variables and that the fixed-effects model is more appropriate for this analysis. Consequently, the fixed-effects model is used as the primary specification, with random-effects results reported for robustness.

#### 4.4.2. Fixed Effects Regression Results

Table 5 presents the fixed effects regression results examining the relationship between corporate governance mechanisms and creative accounting practices.

**Table 5. Fixed Effects Panel Regression Results**

Variable	Coefficient	Robust std. error	t-statistic	p-value
BSIZE	-0.0024	0.0047	-0.51	0.612
BIND	-0.0387	0.0562	-0.69	0.493
ACEFF	-0.0068	0.0089	-0.76	0.449
OWNCON	0.0214	0.0423	0.51	0.614
SIZE	-0.0156	0.0134	-1.16	0.249
LEV	0.0687	0.0389	1.77	0.082*
ROA	-0.1834	0.0876	-2.09	0.040**
AGE	-0.0003	0.0008	-0.38	0.706
Constant	0.3245	0.2187	1.48	0.143

#### Model Statistics

- R-squared (within): 0.1847
- F-statistic: 2.34
- Prob > F: 0.0289
- Number of observations: 80
- Number of firms: 16

Source: Computed by the authors (2026)

Note: \* means significant at 5%, while \*\* means significant at 10%. Robust standard errors clustered at the firm level.

The fixed-effects regression results show that none of the corporate governance mechanisms (board size, board independence, audit committee effectiveness, or ownership concentration) is a statistically significant predictor of creative accounting practices in Nigerian insurance companies.

**Board Size (BSIZE):** The coefficient is negative (-0.0024) but statistically insignificant ( $p = 0.612$ ), failing to support Hypothesis 1. This suggests that board size does not significantly influence creative accounting practices in the sample.

**Board Independence (BIND):** The coefficient is negative (-0.0387) but statistically insignificant ( $p = 0.493$ ), failing to support Hypothesis 2. The percentage of the independent directors on the board does not significantly constrain creative accounting practices.

**Audit Committee Effectiveness (ACEFF):** The coefficient is negative (-0.0068) but statistically insignificant ( $p = 0.449$ ), failing to support Hypothesis 3. Audit committee quality, as measured by the composite effectiveness index, does not significantly reduce the incidence of creative accounting practices.

**Ownership Concentration (OWNCON):** The coefficient is positive (0.0214) but statistically insignificant ( $p = 0.614$ ), failing to support Hypothesis 4. Ownership concentration shows no

significant relationship with creative accounting practices, providing no evidence for either the monitoring or entrenchment hypotheses.

Among control variables, profitability (ROA) shows a significant negative relationship with creative accounting practices ( $\beta = -0.1834$ ,  $p = 0.040$ ), indicating that more profitable firms engage in less earnings management. This is consistent with prior literature suggesting that poorly performing firms have greater incentives to manipulate earnings. Leverage (LEV) shows a marginally significant positive relationship ( $\beta = 0.0687$ ,  $p = 0.082$ ), suggesting that highly leveraged firms may engage in more creative accounting, possibly to avoid debt covenant violations.

The model's R-squared (within) is 0.1847, indicating that it accounts for approximately 18.5% of the within-firm variation in creative accounting practices. Despite the insignificance of individual governance variables, the model is statistically significant ( $F = 2.34$ ,  $p = 0.0289$ ).

#### 4.4.3. Random Effects Regression Results (Robustness Check)

Table 6 presents random effects regression results as a robustness check.

**Table 6. Random Effects Panel Regression Results**

Variable	Coefficient	Robust std. error	z-statistic	p-value
BSIZE	-0.0031	0.0041	-0.76	0.449
BIND	-0.0429	0.0518	-0.83	0.408
ACEFF	-0.0074	0.0082	-0.90	0.368
OWNCON	0.0198	0.0391	0.51	0.613
SIZE	-0.0142	0.0118	-1.20	0.229
LEV	0.0712	0.0367	1.94	0.052*
ROA	-0.1923	0.0812	-2.37	0.018**
AGE	-0.0004	0.0006	-0.67	0.503
Constant	0.3567	0.1987	1.80	0.073

#### Model Statistics

- R-squared (overall): 0.1623
- Wald chi<sup>2</sup>: 21.45
- Prob > chi<sup>2</sup>: 0.0061
- Number of observations: 80
- Number of firms: 16

Source: Computed by the authors (2026)

Note: \*Significant at 5% level; \*\*Significant at 10% level. Robust standard errors.

The random effects results are qualitatively similar to the fixed effects results. None of the corporate governance mechanisms shows significant relationships with creative accounting practices. The control variables (ROA and LEV) maintain their significance and sign direction, reinforcing the robustness of these findings.

## 4.5. Additional Diagnostic Tests

### 4.5.1. Heteroscedasticity Test

The Breusch-Pagan test for heteroscedasticity produced a chi-square value of 14.67 ( $p = 0.023$ ), indicating the presence of heteroscedasticity. Consequently, robust standard errors concentrated at the firm level were employed in all regression specifications to ensure valid statistical inference.

### 4.5.2. Autocorrelation Test

The Wooldridge test for autocorrelation produced an F-statistic of 3.89 ( $p = 0.067$ ), suggesting marginal evidence of first-order autocorrelation. Robust standard errors clustered at the firm level address this concern by accounting for within-firm correlation of errors over time.

## 4.6. Summary of Hypothesis Testing

Table 7 summarizes the results of hypothesis testing.

**Table 7. Summary of Hypothesis Testing Results**

Hypothesis	Expected sign	Coefficient	p-value	Decision
H <sub>1</sub> : Board size negatively affects creative accounting	Negative	-0.0024	0.612	Not supported
H <sub>2</sub> : Board independence negatively affects creative accounting	Negative	-0.0387	0.493	Not supported
H <sub>3</sub> : Audit committee effectiveness negatively affects creative accounting	Negative	-0.0068	0.449	Not supported
H <sub>4</sub> : Ownership concentration affects creative accounting	Either	0.0214	0.614	Not supported

*Source: Computed by the authors (2026)*

None of the four hypotheses is supported by empirical evidence. The results indicate that the examined corporate governance metrics do not have statistically significant relationships with creative accounting practices in Nigerian listed insurance firms during the study period.

## 4.7. Discussion

The central finding of this study, that corporate governance mechanisms show no significant relationships with creative accounting practices in Nigerian insurance companies, is surprising given the extensive theoretical and empirical literature linking governance to financial reporting quality. This section discusses potential explanations for these null findings and their implications for theory and practice.

The absence of a significant relationship between board size and creative accounting practices contradicts both resource dependence theory predictions (larger boards provide better monitoring) and agency theory concerns (larger boards suffer from coordination problems). This null finding aligns with some prior research reporting mixed or insignificant board size effects (Peasnell et al., 2005; Uwuigbe et al., 2015).

Several explanations may account for this finding in the Nigerian context. Symbolic compliance: Nigerian insurance companies may maintain boards of varying sizes primarily to meet regulatory requirements rather than for substantive monitoring purposes. If board size is determined by regulatory

compliance considerations rather than optimal governance design, its relationship with accounting quality may be weak. Board composition heterogeneity: The effectiveness of board size may depend on the quality and expertise of individual directors rather than sheer numbers. In Nigeria's relationship-based business environment, board appointments may be influenced by social connections, political considerations, or family ties rather than professional expertise (Okpara, 2011). Consequently, larger boards may not necessarily provide better monitoring if additional directors lack relevant expertise or independence. Limited board engagement: Even where boards are appropriately sized, limited meeting frequency, inadequate preparation time, or information asymmetries between management and directors may constrain effective monitoring. If boards function primarily as ceremonial bodies rather than active monitors, board size becomes irrelevant to accounting quality. These findings suggest that board size, as a structural characteristic, may be less important than board processes, director quality, and board engagement in determining governance effectiveness in emerging markets.

The lack of a significant relationship between board independence and creative accounting practices is particularly noteworthy given the widespread regulatory emphasis on independent directors. The Nigerian Corporate Governance Code (2018) mandates minimum proportions of independent directors based on the assumption that independence enhances monitoring effectiveness. The null finding challenges this assumption in the Nigerian insurance context.

Several factors may explain the ineffectiveness of board independence. Nominal versus substantive independence: While directors may be formally classified as independent based on regulatory criteria (absence of employment relationships, material business ties, or family connections), they may lack substantive independence due to social networks, reciprocal relationships, or cultural norms that discourage challenging management (Young et al., 2008). In collectivist cultures like Nigeria, where social harmony and respect for authority are valued, independent directors may be reluctant to aggressively question management even when formally empowered to do so. Limited expertise and information: Independent directors, particularly in emerging markets, may lack industry-specific knowledge, financial expertise, or access to information necessary to detect sophisticated creative accounting practices. Insurance accounting is technically complex, involving actuarial estimates, reserve calculations, and reinsurance arrangements that require specialized knowledge. Independent directors without insurance or actuarial backgrounds may be unable to effectively scrutinize management's accounting choices.

Weak legal protection: The effectiveness of independent directors depends on legal frameworks that protect them from retaliation and provide mechanisms for enforcing their oversight responsibilities (La Porta et al., 1998). In Nigeria, where legal enforcement is weak and minority shareholder protection is limited, independent directors may lack the institutional support needed to effectively challenge management. Selection bias: The appointment process for independent directors may be controlled by management or dominant shareholders, leading to the selection of individuals unlikely to provide rigorous oversight. If independent directors are selected for their amenability rather than their monitoring capability, formal independence will not translate into effective monitoring. These findings align with institutional theory's emphasis on the importance of informal institutions and enforcement mechanisms in determining governance effectiveness (Aguilera & Jackson, 2003). Formal independence requirements may be insufficient without supporting institutional infrastructure.

The absence of a significant relationship between audit committee effectiveness and creative accounting practices is concerning, given the audit committee's specialized role in financial reporting

oversight. The composite effectiveness measure used in this study incorporated multiple dimensions of audit committee quality (independence, expertise, meeting frequency, and size), yet none of these dimensions, individually or collectively, significantly constrained creative accounting.

Possible explanations include. **Limited financial expertise:** While the study measured the presence of financial experts on audit committees, the depth and relevance of that expertise may be insufficient. Insurance accounting requires specialized knowledge of actuarial principles, reserve estimation, and regulatory accounting that general financial expertise may not provide. Audit committee members with banking or manufacturing backgrounds may lack the specific competencies needed to scrutinize insurance accounting practices. **Inadequate meeting time and resources:** Even well-composed audit committees may be ineffective if they meet infrequently, have limited time to review complex financial information, or lack adequate staff support. If audit committee meetings are brief and focused on routine compliance matters rather than substantive accounting issues, their monitoring effectiveness will be limited. **Information asymmetry:** Audit committees rely on information provided by management and external auditors. If management controls the information flow or if external auditors are insufficiently independent or competent, audit committees may lack the information necessary to detect creative accounting practices.

**Weak external audit quality:** Audit committee effectiveness depends in part on external auditors' quality. In Nigeria, audit quality concerns have been documented, including limited auditor independence, inadequate technical competence, and insufficient audit effort (Adeyemi & Fagbemi, 2010). If external auditors fail to detect or report creative accounting practices, audit committees cannot effectively address them. **Cultural and relational factors:** Audit committee effectiveness may be undermined by cultural norms that discourage confrontation or by personal relationships between audit committee members and management. In relationship-based business environments, audit committee members may prioritize maintaining harmonious relationships over rigorous oversight. These findings suggest that audit committee effectiveness requires not only appropriate structural characteristics but also adequate expertise, resources, information access, and supporting institutional infrastructure.

The absence of a significant relationship between ownership concentration and creative accounting practices provides no support for either the monitoring hypothesis (concentrated ownership enhances monitoring) or the entrenchment hypothesis (concentrated ownership facilitates expropriation). This null finding is consistent with prior emerging-market research reporting ambiguous ownership effects (Claessens et al., 2002).

Several interpretations are possible. **Competing effects:** Ownership concentration may have both monitoring and entrenchment effects that offset each other, resulting in no net relationship with creative accounting. Large shareholders may monitor management to protect their investments but may also collude with management to manipulate earnings for private benefits (tax avoidance, regulatory forbearance, or tunneling). **Heterogeneity of large shareholders:** The identity and objectives of large shareholders may matter more than concentration per se. Institutional investors, family owners, and government entities may have different monitoring capabilities and incentives. The study's aggregate measure of ownership concentration may obscure important heterogeneity in shareholder types. **Weak minority shareholder protection:** In environments with weak legal protection for minority shareholders, large shareholders may have limited incentives to ensure high-quality financial reporting if they can extract private benefits through other channels. If controlling shareholders have access to private information and can monitor management directly, they may be indifferent to the quality of public financial reporting. **Regulatory constraints:** In the insurance sector,

regulatory capital requirements and solvency monitoring may constrain the extent to which controlling shareholders can manipulate earnings without triggering regulatory intervention. If regulatory oversight is effective, ownership structure may have limited influence on accounting practices. These findings highlight the complexity of ownership effects and the importance of considering shareholder identity, legal protection, and the regulatory context when assessing ownership-governance relationships.

The findings across all governance mechanisms suggest a fundamental disconnect between formal governance structures and accounting quality in the Nigerian insurance context. This pattern is consistent with institutional theory's emphasis on the importance of institutional environment in shaping organizational practices (DiMaggio & Powell, 1983; Scott, 2008).

Several institutional factors may explain the ineffectiveness of corporate governance mechanisms in Nigeria. **Weak Legal Enforcement:** Corporate governance mechanisms rely on legal frameworks that define director duties, shareholder rights, and enforcement mechanisms (La Porta et al., 1998). In Nigeria, despite formal legal protections, enforcement is often weak, slow, and unpredictable (Okpara, 2011). Directors and controlling shareholders may face limited legal consequences for governance failures or accounting manipulation, reducing the deterrent effect of governance structures. **Limited Regulatory Capacity:** While NAICOM has introduced corporate governance requirements for insurance companies, regulatory capacity constraints may limit effective enforcement. Insufficient regulatory resources, limited technical expertise, and competing priorities may result in superficial compliance monitoring rather than substantive governance assessment. If companies can satisfy regulatory requirements through symbolic compliance without substantive governance improvements, formal governance structures will have limited impact on behavior. **Weak External Audit Quality:** The effectiveness of internal governance mechanisms depends partly on high-quality external audits that provide independent verification of financial statements. Concerns about audit quality in Nigeria, including limited auditor independence, inadequate technical competence, and insufficient audit effort, may undermine governance effectiveness (Adeyemi & Fagbemi, 2010). If external auditors fail to detect or report creative accounting practices, internal governance mechanisms lack critical information for effective oversight. **Cultural and Social Factors:** Nigeria's collectivist culture, characterized by emphasis on social harmony, respect for authority, and relationship-based business practices, may influence governance behavior in ways that formal structures cannot capture (Hofstede, 2001). Independent directors may be reluctant to challenge management aggressively, audit committee members may prioritize maintaining relationships over rigorous oversight, and large shareholders may pursue private benefits through informal channels rather than formal governance mechanisms. **Information Environment:** The effectiveness of governance mechanisms depends on the availability of reliable, timely information. In emerging markets with limited analyst coverage, weak financial press, and inadequate disclosure requirements, information asymmetries between insiders and outsiders may be severe (Leuz et al., 2003). If governance actors lack access to high-quality information, their ability to monitor management and detect creative accounting is constrained.

#### **4.7.1. Comparison with Prior Literature**

The null findings in this study contrast with some prior research reporting significant relationships between governance and accounting quality but align with other studies documenting weak or insignificant governance effects in emerging markets.

**Consistent findings:** The results are consistent with studies reporting weak governance effects in emerging markets with poor institutional quality. Leuz et al. (2003) find that earnings management is more prevalent in countries with weak investor protection, suggesting that governance mechanisms are less effective in such contexts. Young et al. (2008) report that formal governance structures have a limited impact on firm performance in China due to weak enforcement and relationship-based business practices.

**Contrasting findings:** The results contrast with studies reporting significant governance effects in developed markets (Klein, 2002; Peasnell et al., 2005) and with some emerging-market studies (Fodio et al., 2013). These differences may reflect institutional context, sectoral characteristics, or methodological variations.

**Nigerian evidence:** The findings partially align with mixed results from prior Nigerian studies. Fodio et al. (2013) report significant negative relationships between board independence and earnings management in Nigerian listed firms, while Uwuigbe et al. (2015) find mixed results for governance mechanisms in Nigerian banks. The current study's focus on the insurance sector and its use of more recent data may explain some differences.

#### **4.7.2. Theoretical Implications**

The results challenge the universal applicability of agency theory-based governance prescriptions. While agency theory predicts that governance mechanisms should constrain opportunistic managerial behavior, this relationship may be contingent on institutional context. In environments with weak enforcement, limited information, and relationship-based business practices, formal governance structures may be insufficient to address agency problems.

The findings underscore the importance of institutional theory in understanding governance effectiveness. Formal governance structures, transplanted from developed-market contexts, may be ineffective in emerging markets that lack supporting institutional infrastructure. Governance research must consider not only formal structures but also informal institutions, enforcement mechanisms, and cultural factors that shape organizational behavior.

#### **4.7.3. Practical Implications**

The findings have significant implications for practitioners, regulators, and policymakers:

- Strengthening enforcement mechanisms.** Rather than expanding formal governance requirements, regulators should focus on strengthening enforcement of existing standards. This includes increasing regulatory capacity, enhancing monitoring systems, and imposing meaningful sanctions for governance failures.
- Improve audit quality:** Policymakers should prioritize initiatives to enhance external audit quality, including strengthening auditor independence requirements, improving auditor training and competence, and enhancing audit oversight mechanisms.
- Address institutional voids:** Long-term governance improvement requires addressing underlying institutional weaknesses, including legal system reforms, enhanced investor protection, and the development of information infrastructure.
- Move beyond box-ticking compliance:** Regulatory approaches should emphasize substantive governance effectiveness rather than formal compliance with structural requirements. This may involve more intensive regulatory engagement, governance quality assessments, and a focus on governance processes and outcomes rather than structures.

#### **4.7.4. For Insurance Companies**

**Prioritize substantive governance:** Companies should focus on substantive governance improvements rather than symbolic compliance. This includes ensuring that directors have relevant expertise, adequate time and resources for oversight, and access to high-quality information. **Enhance board effectiveness:** Rather than focusing solely on-board composition, companies should invest in board processes, including director training, meeting effectiveness, information quality, and board evaluation. **Strengthen internal controls:** Given the limited effectiveness of board-level governance, companies should emphasize strong internal control systems, ethical culture, and whistleblower mechanisms to constrain creative accounting. **Improve transparency:** Enhanced voluntary disclosure and stakeholder engagement may provide alternative governance mechanisms when formal structures are insufficient.

#### **4.7.5. For Investors and Stakeholders**

**Look beyond formal governance:** Investors should not rely solely on formal governance indicators when assessing insurance companies. Other factors, including regulatory compliance history, audit quality, management reputation, and financial transparency, may be more informative. **Demand substantive governance:** Shareholders should exercise their voice and voting rights to demand improvements in these areas, including director expertise, board engagement, and accountability mechanisms. **Support institutional development:** Long-term improvement in governance effectiveness requires collective action to strengthen institutional infrastructure, including regulatory capacity-building, legal reforms, and professional development.

### **5. Conclusion**

This study investigated the link between corporate governance mechanisms and creative accounting practices in Nigerian listed insurance companies, using panel data from 16 companies spanning 2020–2024. Using discretionary accruals derived from the Modified Jones Model as a measure of creative accounting and panel regression analysis with fixed effects, the study tested four hypotheses regarding the relationships between governance mechanisms (board independence, board size, audit committee effectiveness, and ownership concentration) and creative accounting practices.

The empirical results reveal that none of the examined corporate governance mechanisms are statistically significantly connected to creative accounting practices in the sample. Board size, board independence, audit committee effectiveness, and ownership concentration all show insignificant coefficients in both fixed- and random-effects specifications. These null findings persist after controlling for firm size, leverage, profitability, and firm age, and are robust to alternative model specifications.

Among control variables, profitability (ROA) shows a significant negative relationship with creative accounting, indicating that more profitable firms engage in less earnings management. Leverage shows a marginally significant positive relationship, suggesting that highly leveraged firms may engage in more creative accounting to avoid debt covenant violations.

This study contributes to the literature in several ways:

**Empirical contribution:** The study provides sector-specific evidence from Nigerian insurance companies, addressing a significant gap in the literature. While prior studies have examined

governance-accounting quality relationships in banking and manufacturing sectors, evidence from African insurance markets has been limited. The insurance sector's unique characteristics—complex accounting standards, long-term liabilities, and significant estimation uncertainty—make it a particularly important context for examining creative accounting.

**Theoretical contribution:** The findings challenge the universal applicability of agency theory-based governance prescriptions and emphasize the significance of institutional context in governance research. The results support institutional theory's emphasis on the role of enforcement mechanisms, informal institutions, and cultural factors in shaping governance effectiveness. The study contributes to the growing literature questioning the transferability of developed-market governance models to emerging-market contexts.

**Methodological contribution:** The study employs rigorous panel regression techniques with appropriate controls for firm-specific heterogeneity, heteroscedasticity, and autocorrelation, thereby addressing methodological limitations in some prior emerging-market studies. The use of a composite audit committee effectiveness measure that incorporates multiple dimensions of audit committee quality provides a more comprehensive assessment than single-indicator approaches.

**Policy contribution:** The findings have important implications for regulatory policy, suggesting that expanding formal governance requirements may prove inadequate in improving financial reporting quality without strengthening enforcement mechanisms and addressing institutional voids. The results highlight the need for regulatory approaches that emphasize substantive governance effectiveness rather than symbolic compliance.

The study is limited to 16 insurance companies over five years, yielding 80 firm-year observations. While this represents a substantial proportion of listed Nigerian insurance companies, the modest sample size may limit statistical power to detect relationships. The focus on listed companies excludes unlisted insurers, which may have different governance characteristics and accounting practices. Also, the study relies on discretionary accruals as a proxy for creative accounting. While the Modified Jones Model is widely used and validated, it is an imperfect measure that may contain measurement error. Alternative earnings management measures (real activities manipulation, classification shifting) were not examined due to data limitations. Further, the study cannot directly observe governance processes, director engagement, or informal governance mechanisms. The effectiveness of governance may depend more on how structures function in practice than on formal characteristics. The findings are specific to Nigerian insurance companies during 2020–2024 and may not generalize to other sectors, countries, or time periods. The institutional context of Nigeria and the unique characteristics of the insurance sector limit external validity.

The findings suggest several promising directions for future research. Future research should examine governance mechanisms beyond formal board and ownership structures, including management quality, corporate culture, stakeholder engagement, and informal governance mechanisms. Qualitative research methods (interviews, case studies) could provide insights into how governance functions in practice. Research should explicitly examine how institutional factors (legal enforcement, regulatory quality, audit quality, and information environment) moderate the relationship between governance and accounting quality. Cross-country comparative studies could illuminate how institutional context shapes governance effectiveness.

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