CORPORATE BOARD DYNAMICS AND CLASSIFICATION SHIFTING OF EARNINGS MANAGEMENT IN EMERGING ECONOMIES

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ABSTRACT

This study investigated whether corporate board dynamics of selected non financial firms in Nigeria and Kenya constrains the classification shifting of earnings management. Samples of 50 quoted non-financial firms were used for a period of ten years spanning from 2010 to 2019. Our study used an ex-post facto research design that cut across different sectors and different countries. The secondary sources of data were collected from annual reports of the quoted firms quoted in their respective stock exchange and four (4) specific objectives and hypotheses were tested and analyzed using descriptive statistics, variance inflation factor and panel regression analysis. Selecting a sample of 500 company-year observations, the result revealed that corporate board dynamics such as female board gender has a negative and significant effect in mitigating opaque manipulation practices such as classification shifting of quoted non-financial firms in Kenya and Nigeria which was statistically significant at a 1% level of significance while other corporate board dynamics such as independent board director, foreign board membership and board financial expertise were found to have negative and insignificant effect in curbing classification shifting of firms in both Nigeria and Kenya. Again, it was discovered that adjusted R-squared which stood at 42.2% indicates that all the independent variables jointly explain about 42.2% of the system variation in classification shifting of our sampled companies while about 57.8% of the total variations were not explained, hence captured by the stochastic error term. The study, therefore, suggests that non-financial firms' corporate board should be constituted by an equal proportion of female to male directors as the presence of women on the board help mitigates classification shifting.

Keywords: Classification shifting, earnings management, corporate board dynamics, emerging economies

1. INTRODUCTION

Considering the number of accounting scandals in world-known companies like Enron and WorldCom and resultant loss of investors' fund. For example, Enron and WorldCom intentionally reclassified some of their liabilities and losses which was part of core expenses to non-recurring expenses and move them to non-consolidated special purpose entities (Xudong, 2016). This reclassification shifting resulted in a decrease in unexpected non-recurring expenses of $1.01 billion in October 2001 and an equivalent increment in core earnings. Therefore, as a result of these accounting scandals, several

specific rules have been adopted to maintain the credibility of annual reports and that of the organization in the eyes of external readers. This series of corporate scandals brought corporate board dynamics issues to the forefront of investors' consideration.

In emerging economies like Nigeria, as a result of these scandals aforementioned, an attempt to address these concerns has seen countries come up with different guidelines used in regulating firms across the globe such as the Code of Corporate Governance in Nigeria and Kenya. This is to enable developing economies like Nigeria and Kenya to forge ahead. As a forward, efforts were made to institute corporate governance and one of the major components of corporate governance role that can determine the success of the company is the establishment of the corporate board with diverse knowledge and experience. The corporate board of an organization constitutes of individuals from different ethnic groups, with different expertise and qualification, age and gender differences saddled with the obligations of checkmating the board of directors (Orjinta & Okoye, 2018). As a result of this, a growing number of companies now disclose and explain their corporate governance generally and their corporate board dynamics specifically.

Moreover, previous studies in earnings management paid more attention to discretionary accrual-based earnings management (DA) and real earnings management (REM) leaving the classification shifting which is the third dimension unattended. This third dimension of earnings management is a relatively new research area and needed to be exploited. Only a few study like Orjinta and Okoye (2018), Orjinta, Onuora and Agubata (2018), Athanasakou, Strong and Walker (2009),Barua, Lin and Sbaraglia (2010), Fan, Barua, Cready and Thomas (2010) and McVay (2006) have recently focused on this form of earnings management through classification shifting (CS) and they record inconsistent result. Not just that, most prior studies on earnings management were limited and has been found in advanced countries such as America and United Kingdom(Athanasakou,Strong & Walker 2009;Peasnell,Pope& Young, 2005; Xie, Davidson & Dadalt, 2003; Zalata & Roberts, 2015).

It is therefore evident from the above findings that the extant literature has created more need for further studies to substantiate the movement of the effect between corporate board dynamics and classification shifting. To the best of researchers' knowledge, very few studies related to emerging economies like Nigeria and Kenya has been carried out and thus, this creates the need for further studies. We also extended our study to cut across two African countries at the same time for ten years spanning 2010 to 2019 against what prior studies have done. This is the lacuna the current study intends to bridge therefore adding to the existing literature. Therefore, this paper is subdivided into five series together with this introduction. Section 2 covers the review of some related literature; section 3 concentrates on the methodology adopted while section 4 deals with a discussion of results and analysis. Lastly in section 5, we conclude and proffer our recommendation for policy implementation.

2.   THEORETICAL CONSTRUCTS

2.1   Classification Shifting and Corporate Board Dynamics
The use of classification shifting as a strategy to manage earnings were brought to light by the work of McVay (2006) when she developed empirical models designed to detect abnormal behaviour in core earnings and correlated unexpected core earnings with the incidence of special items. McVay (2006)

investigated this third form of earnings management called classification shifting where she tested if management also alters core earnings since analysts and investors pay attention on core earnings, as opposed to bottom-line net income.

The corporate board is a sub-committee of corporate governance; therefore we focused on the corporate board in this current study. They are instituted to checkmate the company's activities and stop them from opportunistic behaviour and at the same time help to mitigate classification shifting. When a firm is faced with a challenge that management has not faced before, the members of the board with expertise in that respective field can serve as a source of counsel to management. On this note, this current paper reviewed the following board dynamics (independent board directors, foreign board membership, board gender diversity and board financial expertise) as follows:

a. Independent Board Directors: Independent directors are directors that have no personal or professional relationship with a company, other than being a board member (Ong & Djajadikerta, 2017). They are also often referred to as external directors. Independent director has the task of ensuring a balanced decision making, especially to protect minority stockholders and other relevant parties (Orjinta & Okoye, 2018). Therefore, outsider directors are appointed on the board to obtain independent monitoring mechanism over the boarding process thereby reducing agency conflicts and improve performance.

b. Foreign Board Membership and Gender dynamics: Foreign board diversity simply means the number of foreigners on the corporate board. That is people from other countries that forms part of the management team. Gender dynamics simply means the percentage of female members in the corporate board. Oscar and Daniel (2013) argued that female board member improves board monitoring and hence prevent earnings management to a larger extent. This is because male counterpart is likely to view leadership as a series of transaction with subordinates, while female is more likely to have a more interactive leadership style. Although, there are these arguments in favour of women directorship, in reality, their representation in the non-financial firms' team of board of directors is very low, as some firms within the sector did not provide even a single seat for women.

c. Board Financial Expertise: Board financial expertise is referred to as the board committee members who have the knowledge and experiences in accounting and finance or those who have membership in any accounting body or association (Hashim & Abdul Rahaman, 2011; Mohamad-Nor, Shafie & Wan-Hussin; 2010). Board financial expertise is captured as the totality of board members with accounting and financial backgrounds to the total number of board members (Yatim, Kent & Clarkson; 2006). The report of Rustam, Rashid & Zaman (2013) asserts that board members should be sound in financial matters. This is because board members that have experience in finance are more conversant with classification shifting strategies. It is only a board member that is grounded in accounting that can dictate when an item is misclassified or not.

2.2   Empirical Review and Hypotheses Development

a.   Independent Board Directors and Classification Shifting of Earnings management

Literature on earnings management studies believed that adding more independent director on the board enhances credibility and mitigates classification shifting. Take for instance, Zalata and Roberts (2016) discovered that companies with fewer independent directors are more likely to control fraud. On the contrary, Man and Wong (2013) further argued that firms with extensive earnings management are more likely to be controlled by independent directors. In the same vein, Abed, Al-Attar and Suwaidan (2012) documented a positive but insignificant relation between classification shifting and the percentage of outsiders in the board. Nevertheless, considering the contradicting theoretical argument, this paper does not predict any sign for the proportion of independent directors but propose that *there is a significant relationship between the proportion of independent directors and earnings management (H$_0$1).*

b.   Foreign Board Membership and Classification shifting of Earnings Management

We found few studies in the literature relating to foreign board member diversity or national diversity to classification shifting of earnings management. One of the few studies was that of Enofe, Eyafekhe and Eniola (2017) who documented a negative effect between international diversity and earnings management. Based on the contradictory effect found on this variable and coupled with an apparent absence of studies from emerging economies of African countries perspective, the current study does not intend to propose any sign, rather the second hypothesis is drawn up in the null form as follows: *there is no significant relationship between foreign board membership and classification shifting of earnings management (H$_0$2).*
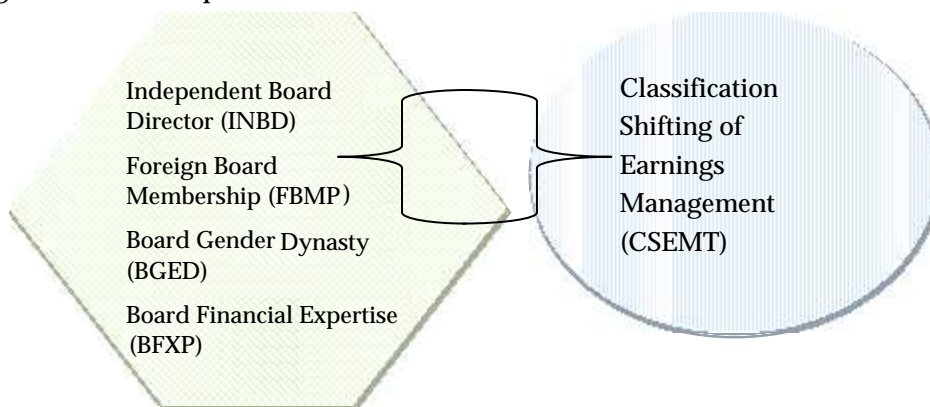
c.   Gender Dynamics and Classification shifting of Earnings management

A lot of inconsistencies characterized the relationship that exists between board gender dynamics and classification shifting. A group of authors such as Orjinta and Okoye (2018), and Omoye and Eriki (2014) documented an inverse relationship between gender dynamics and earnings management. Similarly, Clikean, Geiger and Connell, (2001), Enofe, Iyafekhe, and Eniola (2017), and Zalata, Tauringana and Tingbani (2017), also reported similar findings and therefore argued that gender diversity mitigates the incidences of earnings management. Nevertheless, considering the contradicting theoretical argument, this paper does not wish to predict any sign for gender diversity in the board but propose that *there is a significant relationship between female representative and classification shifting of earnings management (H$_0$3).*

d.   Board Financial Expertise and Classification Shifting of Earnings management

Wasukan (2015) found that the number of directors that are experienced in finance and accounting is indirectly associated with classification shifting, which supports the findings of Park and Shin (2004). In a study done by Cohen, Dey and Lys (2005), they find that high expertise directors are more sensitive to curbing classification. In the same vein, Yang and Krishnan (2005) found that expertise has a positive effect on earnings management. However, some inconsistencies exist in the literature, for that reason, the current study does not intend to propose any sign, rather we hypothesize that *there is a significant relation between expertise diversity and earnings management (H$_0$4).*

Figure 2.1: Conceptual Framework

Source: Researchers' Idea (2020)

2.3 Theoretical Framework (Positive Accounting Theory)

The study was also anchored on the Positive Accounting Theory (PAT) propounded by Watts and Zimmerman in 1986 to explain accounting practice. Positive Accounting Theory takes the position of their rationality of all individuals and believes that human beings act in self-interest to maximize their utility, which corresponds with the agency theory perspective. Managers can either use their discretion to increase the wealth of all contracting parties or to achieve their own benefits at the cost of contracting parties. Such discretion possessed by the managers gives them leeway into manipulating accounting figures to suit their self-interest thereby engaging in earnings management. It was as a result of this that we anchored our study on Positive accounting theory to show what drives managers into classification shifting of earnings management.

3. METHODOLOGY

The study adopted an ex-post-facto research design and cross sectional data of non financial firms quoted in the Nigeria and Nairobi Stock Exchange for the period of ten (10) years spanning 2010 to 2019.The study carried out some preliminary tests like descriptive statistics and variance inflation factor (VIF) analysis and finally used multiple regressions (panel least square regression) for its analysis putting into consideration the fixed or random effect testing for interpretation of regression result. A total of sixty-one (61) firms formed the sample size which is selected out of the total population of one hundred and fifty nine companies using purposive sampling. It is worthy to note that sample size was arrived at by adopting number estimation formula by Taro Yameni, (1967). Based on consideration of sampling, the size of the sample in this study is sixty-one (61) firms but 11 companies do not have the completeness of the data which brought the sample size to 50 companies. Therefore only 50 firms are with sufficient information and were finally selected to be the sample of this study. Note that the 50 firms were selected based on the complete availability of data.

3.1 Model Specification

To vividly summarize what we did, we followed McVay (2006)expectation model and estimate unexpected core earnings and non-recurring items or unexpected operating expenses. We then associate unexpected core earnings with non-recurring expenses while variables such as return on asset (ROA) and firm size (FSIZE) were added to the models as control variables to control for

performance. The model to dictate the existence of classification shifting is specified as follows:

$$UNEXP\text{-}CE_{it} = {}_0 + {}_1NREC_{it} + {}_t {}_2ROA_{1t} + {}_3FSIZE_{1t} + E_{it}\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

While the main regression model to test whether corporate board dynamics collaborates or mitigates classification shifting is stated as follows:

$$CSEMT_{it} = {}_0 + {}_1INBD_{it} + {}_2FBMP_{it} + {}_3BGED_{it} + {}_4BFXP_{it} + {}_5ROA_{it} + {}_6FSIZE_{it} + ?_{it}\ldots\ldots (II)$$

Where

UNEXP-CE means log of Unexpected Core Earnings computed as the difference between reported core earnings and expected core earnings where the expected core earning value is calculated using McVay (2006) model while NREC stands for log of non-recurring items measured as the difference between reported core earnings and bottom line net income scaled by sales.

3.2 Measurement of variables:

Variables	Measurement
Dependent variable	
Classification shifting of earnings management (CSEMT)	*Ascertained using equation 1 above: Difference between reported core earnings and expected core earnings.*
Independent variables	
Independent board director (INBD)	*Captured as the proportion of independent or non-executive directors on the board divided by the total number of directors on the board.*
Foreign Board Membership (FBMP)	*Measured as the percentage of the number of foreigners in the board to the total board of directors*
Board gender dynasty (BGED)	*Proxy as the total number of female directors in the board.*
Board financial expertise (BFXP)	*Measured as the proportion of financially literate board members to the total number of board members.*
Control Variables:	
Return on assets (ROA)	*Measured as net income divided by the average total assets.*
Firm size (FSIZE)	*Measured as the natural log of total assets*

Source: Researchers' Compilation (2021)

4. RESULTS AND DISCUSSION OF FINDINGS

The study investigated the causal effect that exists between corporate board dynamics variables and classification shifting of earnings management of listed non-financial firms between 2010 and 2019. The study carried out some preliminary tests like descriptive statistics and variance inflation factor (VIF) analysis. Descriptive statistics were used to analyze the data in order to ascertain the normality and nature of the data. To further check for the case of perfect correlation among variables, the variance inflation factor (VIF) was conducted to test for the presence of multi-collinearity. Finally, the study used panel least regression analysis in obtaining functional causal effect between the regressors putting into consideration the fixed or random effect testing for interpretation of regression result.

4.1 Descriptive Statistics

The table below shows the descriptive statistics of the selected non-financial firms in both Nigeria and Kenya that make up our sample.

Table 4.1:   Descriptive Statistics

	CSEMT	INBD	FBMP	BGED	BFXP	ROA	FSIZE
Mean	1.4153	0.4473	0.1284	1.7940	3.2988	0.5955	46.514
Median	0.7450	0.5000	0.1000	2.0000	3.0000	0.6400	44.310
Maximum	141.74	0.9300	1.0200	5.0000	7.0000	1.4200	317.19
Minimum	-40.520	0.1200	0.0000	0.0000	0.0000	-0.4300	19.490
Skewness	3.7099	0.2620	3.0761	-0.0126	-0.5341	-0.5666	4.1437
Kurtosis	40.347	4.3632	16.456	2.4483	4.4277	3.1865	51.186
Jarque-Bera	30205	44.441	4560.8	6.3533	66.249	27.482	49804
Probability	0.0000	0.0000	0.0000	0.0417	0.0000	0.0000	0.0000
Observations	500	500	500	500	500	500	500

Source: researcher summary of descriptive statistics result (2020) using E-view 10

The analysis was conducted to describe the overall distributional properties of the series and to discover any unusual patterns of observations if any. Thus, initial exploration of the data using simple descriptive tools was documented to summarize the nature of the data generated for the study. It shows the mean values for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera values which show the normality of the data. This section provides the descriptive statistics as per the objective of the study. Within the period under review, the maximum and minimum values of classification shifting as a measure of earnings management were 141.74 and -40.52 respectively. The large difference between the maximum and minimum values of classification shifting indicates that the degree of misclassification differs greatly among the firms selected and over the period under review, this shows that the firms are not homogenous. The result of the independent directors in the board shows that on average, quoted companies in Nigeria and Kenya have about 45% independent directors in their board as against 51% reported by Zalata and Roberts (2016) in the United Kingdom, 43% reported by Peasnell *et al.* (2005). But supports 45% reported by Osma (2008) in the United States. However, some firms maintained only 12% independent director as their minimum number over the years while others have about a maximum of 93% independent directors on the board. The mean foreign board membership was 0.128 suggesting that on average, the firms under study had about 12% foreigners on the board. The minimum and maximum foreign board membership were 0.000 and 1.02 respectively implying that some firms do not have any foreign member on their board at all while the firm with the highest number of foreign directors on the board had about one person or one foreign director.

The mean gender dynasty was 1.794 suggesting that on average, the firms have at least one female member in the board while the minimum value of 0.000 implying that some firms do not even have one female board member in their total number of board of directors and the maximum female member in the board was 5 females. This shows that some firms have a good number of female directors on their board up to a maximum of 5 female members in the board. The standard deviation for gender was 1.018 demonstrating that out of the 50 non-financial firms, the female gender was spread around the mean with about 1.018 female board members. The skewness was -0.012 implying data about gender diversity was negatively skewed with most values bunched to the right. The value of kurtosis was 2.448

implying that the data about female gender was distributed with kurtosis less than 3 hence said to be platykurtic and having few outliers.

Board financial expertise result showed that on average, about 3 members of the board of quoted companies in selected African countries are financial expert, however, some firms over the years have maximum number of about 7 members who have financial experience/expertise while others have no board members with financial or accounting experience/expertise at all. Lastly, the Jarque -Bera (JB) and its probability which test for normality or existence of outlier shows that all the variables were normally distributed at 1% level of significance except female board gender dynasty that was normally distributed at 5% level.

4.2 Variance Inflation Factor (VIF)

Multicollinearity was tested by computing the Variance Inflation Factor (VIF) and it's reciprocal or the tolerance to know whether the independent variables used are perfectly correlated. The result of the Variance Inflation Factor (VIF) is provided below in table 4.2. below:

Table 4.2.   Variance Inflation Factor Result (Nigeria and Kenya)

Variable	Centered VIF
C	NA
INBD	1.0137
FBMP	1.0073
BGED	1.0156
BFXP	1.0091
ROA	1.0106
FSIZE	1.0141

Source: Researcher's summary of VIF result (2021)

As can be observed from the result of VIF in table 4.2 above, the mean value or the variance inflation factor (VIF) values of the coefficient of the independent variables are less than 10, therefore the effect of multicollinearity is negligible. This implies that there was no multicollinearity problem with the variables thus all the variables were maintained in the regression model. It can also be seen from the table that all the variables had a variance inflation factor (VIF) of less than 10. This means that there are no variables with outlier, and none of the variables is highly correlated. Our finding also justifies the use of panel least square estimation techniques. Hence, any recommendations made to a very large extent would represent the characteristics of the true population of study and thus can be used to conclude.

4.3 Panel least Regression Results

The regression test below was conducted to check and ascertain whether non-financial firms in Nigeria and Kenya engage in classification shifting in a bid to smooth their earnings. It is worthy to note that when firms engage in classification shifting, the unexpected core earnings increase with non-recurring items, thereby giving rise to a positive and direct relationship between unexpected core earnings and non-recurring items. A positive relationship between unexpected core earnings and the non-recurring

item is evidence of Classification shifting (CS) and it also suggests that firms shift recurring/core expenses to non-recurring items to inflate core earnings, thus evidence of classification shifting (CS). Therefore, the current study supported the findings of Athanasakou*et al.* (2009) and considers a firm engaging in classification shifting if it has both positive coefficient value between unexpected core earnings and non-recurring items. The probability value shows that the effect of non recurring expenses on unexpected core earnings is statistically significant at 1% level.

Table 4.3.1 Regression of Unexpected Core Earnings on Non-Recurring Items (Eqn 1)
Dependent Variable: UNEXPCE
Method: Panel Least Squares
Date: 11/25/20   Time: 11:15
Sample: 2010 2019
Periods included: 10
Cross-sections included: 50
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.845941	0.250283	3.379943	0.0008
NREC	30.78411	1.296397	23.74590	0.0000
FSIZE	-0.181316	0.004314	-42.02699	0.0000
ROA	5.708417	0.203722	28.02060	0.0000

R-squared	0.773618	Mean dependent var	-6.935587
Adjusted R-squared	0.772708	S.D. dependent var	5.781251
S.E. of regression	2.756220	Akaike info criterion	4.870917
Sum squared resid	5667.175	Schwarz criterion	4.895557
Log likelihood	-1822.594	Hannan-Quinn criter.	4.880411
F-statistic	849.7735	Durbin-Watson stat	1.133637
Prob(F-statistic)	0.000000		

Source: *Researchers' computation (2021)*

Now that it has been confirmed that the existence and evidence of classification shift among selected non-financial firms in emerging economies, we can now proceed with the main regression analysis to see if the corporate board collaborates or mitigate classification shifting. Therefore, to examine the relationship between the dependent variable (classification shifting) and the independent variables (INBD, FBDP, BGED, BFXP) and to test the formulated hypothesis, we employed a panel regression analysis and regressed all the independent variables and control variables against classification shifting (earnings management).

The summarized result of regression analysis is presented below. However, the study takes into cognizance the non homogeneity nature of the firms, hence the need for testing its effect on the data. This necessitated the use of Hausman effect test to ascertain which effect to explain. Hausman test is used to decide between fixed effect model or random effect model. When the Chi square (Prob) value

is greater than 5%, you interpret random effect and said that random effect is more preferred to fixed effect but when it is less than 5%, you interpret fixed effect and said that fixed effect is more preferred to random effect. Below is the summary of the Hausman test result.

Table 4.3.2 Hausman Test
Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.014781	6	0.5419

Source: Researcher's summary of Hausman Test result (2020)

The Hausman test result above shows a chi-square statistics value of 5.014781 and probability value 0.5419 which is greater than 5%, this means that there is no homogeneity in the collection of the firms' data. Since the Chi-square (Prob) value is more than 5%, hence we accept the random effect and interpret its regression while the fixed effect is rejected. Hausman test shows that the random-effects estimation (REM) method is more appropriate than the fixed effects (FEM) for all non-financial sectors in both Nigeria and Kenya; hence the results from REM is presented and interpreted in table 4.3.3 below.

Table 4.3.3:   Panel Least Regression Result

Cross-section random effects test equation:

Dependent Variable: CSEMT

Method: Panel Least Squares

Date: 11/25/20   Time: 02:28

Sample: 2010 2019

Periods included: 10

Cross-sections included: 50

Total panel (balanced) observations: 500

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.230174	3.561625	0.906938	0.3649
INBD	-7.623838	4.808296	-1.585559	0.1136
FBMP	-1.328095	3.944677	-0.336680	0.7365
BGED	-2.249104	0.665732	-3.378392	0.0008
BFXP	-0.363484	0.632150	-0.574997	0.5656
ROA	0.651551	1.965459	0.331501	0.7404
FSIZE	-0.004482	0.025326	-0.176990	0.8596

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.485321	Mean dependent var	1.415320
Adjusted R-squared	0.421565	S.D. dependent var	12.22264
S.E. of regression	9.295914	Akaike info criterion	7.402243
Sum squared resid	38367.82	Schwarz criterion	7.874279
Log likelihood	-1794.561	Hannan-Quinn criter.	7.587470
F-statistic	7.612242	Durbin-Watson stat	1.966532
Prob(F-statistic)	0.000000		

Source: Researcher's summary of regression result (2020).

Table 4.3.3 above shows the panel regression analysis of quoted non-financial firms in Nigeria and Kenya. From the table above, the F-statistics value of 7.6122 and their P-value of 0.0000 showed that the overall earnings management regression model was generally significant at 1% level of significance and it shows that the model was well specified in explaining classification shifting of earnings management. This further confirms the appropriateness of our model used for the analysis. From the result above, the study observed that the R. squared value was 0.485 (48.5%) and the R-squared adjusted value was 0.4215 (42.2%) approximately. This indicates that all the independent variables jointly explain about 42.2% of the system variation in earnings management of our sampled non-financial firms in Nigeria and Kenya over the 10years period while about 57.8% of the total

variations were unaccounted for, hence captured by the stochastic error term. The Durbin Watson statistics value of 1.966 showed that the model is well spread since the value is approximately 2 and that there have not been self or autocorrelation problem and that error are independent of each other.

4.4   Discussion of Findings

In continuation to the above, the specific findings from each explanatory variable were provided as follows:

H_{01}: *Independent board directors has no significant effect on classification shifting of earnings management of quoted non financial firms in Nigeria and Kenya.*

The result of the analysis in table 4.3.3 above of the effect of independent board director on classification shifting revealed that independent board directors have the coefficient value of -7.623, and a P-value of 0.1136. This means that a 1% increase in the proportion of independent directors in the board will lead to a proportionate reduction in the level of classification shifting of earnings manipulation by 7.62%. Our finding was in agreement with the prior studies of Orjinta and Okoye (2018), Jouber and Fakhfakh (2010), Xie *et al.* (2003), Roodposhti and Chashmi (2003) and Peasnell *et al.* (2005) that observed that independent directors at the board are associated with reduced earnings management practices especially less income-decreasing earnings but negates the findings of Man and Brossa (2013) and Hashim and Devi (2008) that found a positive result. Our finding also agreed with the findings of prior studies like Gulzar and Wang (2011), Barter and Cotter (2009) and Vafeas (2005). Based on the results of the analysis, the study accepted the first null hypothesis and therefore concludes that independent board directors have a negative but insignificant effect on earnings management using the classification shifting approach.

H_{02}:   *Foreign board membership has no significant effect on classification shifting of earnings management.*

The regression result in table 4.3.3 above revealed that foreign board membership which shows the percentage of foreigners in the board has a negative and insignificant effect on earnings management of quoted non-financial firms in Nigeria and Kenya with a negative coefficient value of -1.328%, the t-statistics value of -0.3366 and a probability value of 0.7365 which is statistically insignificant not even at 10% level of significance. This implies that a % increase in the number of foreign directors on the board leads to a % decrease in earnings management practices of firms in emerging economies of African countries. The study finding is in congruence with the study by Bala and Gugong (2015). Meanwhile, the probability value from the model revealed that board membership diversity has no statistically significant effect on earnings management. As a result of this insignificant effect documented, we therefore accept our second null hypothesis and conclude that foreign board membership has no significant effect on classification shifting of earnings management of non-financial firms in Nigeria and Kenya.

H_{03}:   *Board gender dynasty has no significant effect on classification shifting of earnings management of quoted non-financial firms.*

From the regression table 4.3.3 above, it was revealed that female board gender has a negative coefficient value of -2.249 and a P-value of 0.0008. The result from the model above indicates that female board gender has negative influence on the level of classification shifting; this means that having more female in the corporate board can negatively affect the classification shifting practices of

non-financial firms in Nigeria and Kenya. The probability value (0.0008) and the t-statistic value of -3.378 revealed that having more female members in the board can lead to percentage decrease in the level of misclassification to the tune of -2.249% which was statistically significant at 1% level of significance. This finding agrees with the findings of Hussaini (2018), Orjinta and Okoye (2018), Mikael and Johan (2016), Zalata, Tingbni and Tauringana (2017) Man and Brossa (2013) but disagrees with the findings of Gulzar and Wang (2011). Based on these findings from the analysis, the study rejected the third null hypothesis and accepts the alternate hypothesis, we therefore conclude that female representative in the board has negative and significant effect on classification shifting of earnings management of quoted non-financial firms in Nigeria and Kenya which was statistically significant at 1% level of significance.

H_{04}:   *Board financial expertise has no significant effect on classification shifting of earnings management of quoted non-financial firms in Nigeria and Kenya.*

From the regression table 4.3.3 above, the result shows that board financial expertise has a negative coefficient value of -0.3634 and P-value of 0.5656. The result of the analysis from the model indicates that board financial expertise has negative and insignificant influence on classification shifting. This implies that a 1% increase in the proportion of board members with financial knowledge and expertise will lead to a decrease in the misclassification practices. This finding was in line with the findings of Wasukarn (2015) but negates the findings of Orjinta and Okoye (2018) and Zhao (2012) who documented positive effect between board expertise and earnings management. As a result of this insignificant effect we documented, we accepted our null hypothesis and therefore conclude that board financial expertise has negative and insignificant effect on classification shifting of earnings management of quoted non financial firms in Nigeria and Kenya.

For our control variables, it was discovered that return on assets has positive and insignificant effect while firm size recorded negative and also insignificant effect on classification shifting of earnings management.

5.   CONCLUSION AND RECOMMENDATIONS

The main purpose of this study was to examine the relationship between corporate board dynamics and earnings management using the classification shifting approach. Previous studies have supported that the corporate board effectively controls managers' earnings management manipulations. However, they all used abnormal accruals and real earnings management as a proxy for earnings management. Therefore, in response to McVay (2006) call for more research to provide additional cross-sectional tests of classification shifting, we examined how classification shifting of earnings management can be curbed by corporate board dynamics, using secondary data from non-financial firms listed on the stock exchange of two selected emerging countries in Africa. We considered the following corporate board dynamics such as independent board directors, foreign board membership, female board gender dynasty and board financial expertise to examine how well-diversified corporate boards are able to constrain classification shifting.The results revealed that classification shifting is less prevalent in firms with corporate boards comprising of more independent directors, more financial expert members, and more female directors even though that majority showed insignificant effect except for female board gender that recorded statistically significant effect at 1% level of significance.

Based on the findings of our study, we therefore recommend foran equal proportion of female to male representatives in their corporate board as the presence of women in the board help mitigates classification shifting.So in this view, shareholders can be protected from earnings manipulations by making the corporate board system well-diversified and stronger in their respective firms.

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