KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES KNUST SCHOOL OF BUSINESS DEPARTMENT OF ACCOUNTING AND FINANCE

DIVIDEND POLICY, EARNINGS MANAGEMENT AND THE MODERATING EFFECT OF CORPORATE GOVERNANCE IN GHANA

By

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A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

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DECLARATION

'I hereby declare that this submission is my own work towards the award of the M**aster of Science in Accounting and Finance** and that, to the best of my knowledge, it contains no material previously published by another person or any material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text'.

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DEDICATION

I dedicate this project to my mother Margaret Acquah, my sister Elizabeth Acquah, family and friends, the school of business and the administration at the Kwame Nkrumah University of Science and Technology for being a strong pillar throughout my MSC program. Without their unwavering love and support, this project would not have been made possible. I am deeply humbled by the knowledge acquired and support accorded to me during my studies at the university.

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ABSTRACT

The present study aimed to examine the moderating role of corporate governance mechanisms in the relationship between earnings management and dividend policy. Employing a correlational design and descriptive research methodology, secondary data were gathered from the annual financial reports of ten selected firms listed on the Ghana Stock Exchange from 2010 to 2021. Panel estimation techniques, including static and dynamic models, were employed to analyse the data, while diagnostic tests and robustness checks were conducted to address endogeneity concerns. The study's results indicate a notable impact of profits management practices on dividend policy decisions. Companies that engage in earnings management are more inclined to increase dividend payments, thus aligning their interests with those of their shareholders.

The study also underscores the impact of corporate governance mechanisms on dividend policy. Consistent with agency theory, a larger board size, board independence, and CEO duality are positively associated with dividend policy. These mechanisms provide enhanced oversight and governance, which can lead to more favourable dividend policies. Moreover, the interaction between earnings management and larger board sizes or CEO duality magnifies the influence of these factors on dividend policy. This suggests that when combined with a larger board size or CEO duality, earnings management practices exert a stronger effect on dividend policy decisions. This study contributes to the understanding of how corporate governance mechanisms moderate the relationship between earnings management and dividend policy. It highlights the importance of implementing effective corporate governance practices to ensure sound dividend policy decisions and emphasises the need to strike a balance between earnings management activities and maintaining transparency and investor confidence. Research on

investor views and reactions to earnings management and its effect on dividend policy, as well as other elements and contexts that may affect this relationship, is necessary.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The relationship between dividend policy and earnings management has been a topic of interest in the financial literature for many years. Earnings management can be described as the deliberate manipulation of financial information with the aim of attaining specific financial outcomes (Wijethilake and Ananda, 2021; Li, Liu, and Zhang, 2021). Conversely, the concept of dividend policy encompasses the consequential decision made by corporate management about the distribution of a proportion of the organization's profits to its shareholders in the shape of dividends (Ahmed and Ahmed, 2021).

Although many scholars have investigated the link between earnings management and dividend policy, the findings have been inconsistent (Amponsah et al., 2021). The authors suggest that the lack of agreement in the literature may be attributed to institutional differences, firmspecific characteristics, and cultural factors. Furthermore, Akuffo and Affum-Osei (2019) contend that while earnings management can have a significant impact on dividend policy, the relationship between these two variables is complex and dependent on various contextual factors.

Recent financial scandals involving some listed companies in Ghana have brought attention to the significance of corporate governance in shaping the link between earnings management and dividend policy (Adarkwah et al., 2021; Amankwah-Amoah and Debrah, 2019; Arthur and Fosu, 2021). The importance of corporate governance in ensuring that companies operate ethically and transparently has led to increased interest in examining its moderating effect on the relationship between earnings management and dividend policy in Ghana (Danquah et al., 2019; Donkor et al., 2019). According to Salman and Khan (2021), robust corporate governance mechanisms can help minimise the negative effects of earnings management on dividend policy. Similarly, Kharisma et al. (2021) and Adu-Boahen and Amankwah-Amoah (2021) argue that corporate governance can moderate the relationship between earnings management and dividend policy by implementing controls on managerial autonomy, promoting transparency, and ensuring accountability.

Recent empirical research has examined the relationship between earnings management, dividend policy, and corporate governance in Ghana. For instance, Dramani and Tetteh (2019) and Eshun et al. (2021) found that corporate governance mechanisms, such as board size, board independence, and audit committee effectiveness, significantly moderate the correlation between earnings management and dividend policy in Ghanaian listed companies. The authors argue that strong corporate governance can reduce the adverse impact of earnings management on dividend policy and promote long-term shareholder value.

The effect of corporate governance on the connection between profits management and dividend policy in the Ghanaian banking sector was the subject of a separate study by Fosu et al. (2020) and Krah et al. (2019). The study's authors concluded that Ghana's commercial banks could benefit from stronger corporate governance practises like independent board supervision and competent audit committees in order to mitigate the negative impact of profit management on dividend policy.

The agency theory posits that managers may manipulate earnings to signal positive performance to stakeholders and maximise their gains (Mensah and Ahedor, 2019; OwusuAnsah, 2017; Yeboah and Quartey, 2018). This theory emphasises the need of strong corporate governance systems in limiting executive discretion and ensuring that companies behave in the best interests of their shareholders. Therefore, it is crucial to investigate the moderating impact of corporate governance on the relationship between profits management and dividend policy in the context of Ghana. The purpose of this inquiry is to gain significant insights on the efficacy of corporate governance systems in reducing the negative effects of profits management on dividend policy.

Amankwah-Amoah and Debrah (2019) and Suleman and Abdul-Rahaman (2021) argue that the relationship between earnings management and dividend policy is complex and contextspecific. The efficiency of corporate governance in Ghana, as a moderating element in this connection, is yet unknown. The primary objective of this research is to examine the moderating influence of corporate governance on the association between profits management and dividend policy in the context of Ghana.

Insights gained from this study will enrich the current literature by illuminating the role of corporate governance systems in reducing the negative impacts of profits management on dividend policy in Ghana. The fundamental motivation for this research was to assess how corporate governance influences the connection between profits management and dividend policy in Ghana. By exploring the impact of corporate governance mechanisms such as board independence, audit quality, and ownership structure, this study seeks to make a meaningful contribution to the current understanding of the complex relationship between earnings management, dividend policy, and corporate governance.

1.2 Statement of the Problem

Scholars and practitioners in emerging economies, such as Ghana, have recently shown an increasing interest in understanding the relationship between earnings management practices and dividend policy (Javaid, Fatima and Karamat, 2023). The effectiveness of corporate governance mechanisms in moderating this relationship has also been recognised.

Nevertheless, there exists a dearth of scholarly investigations pertaining to the moderating influence of corporate governance on the association between profits management practises and dividend policy in the context of Ghana. Prior research undertaken in many countries has emphasised the significant importance of strong corporate governance procedures in mitigating the adverse effects of earnings management practises on dividend policy (e.g., Esmail et al., 2020; Al-Ani et al., 2020; Tran et al., 2020). In order to mitigate the occurrence of earnings management practises, the conduct of managers may be influenced by several corporate governance procedures, including board independence, board size, and CEO duality (Adomako et al., 2020; Baidoo et al., 2019).

The dividend policy of a firm is an important part of its overall strategy, thus researchers have recently focused on identifying the elements that affect it (Mensah and Ahedor, 2019; OwusuAnsah, 2017; Yeboah and Quartey, 2018; Tran et al., 2020). This subject has been extensively debated in financial literature, with scholars attempting to establish associations between dividend policy and various economic, financial, and cultural factors (Kweku-Muata and Owusu-Antwi, 2018; Puspitasari and Puspita, 2020; Adarkwah et al., 2021; Amankwah-Amoah and Debrah, 2019; Arthur and Fosu, 2021; Tran et al., 2020). However, despite the vast research on this topic, there is no agreement on the fundamental determinants of dividend policy (Tran et al., 2020).

Recent studies have shown conflicting results regarding the relationship between earnings management and dividend policy, and some research has suggested that corporate governance variables could moderate this relationship (Boachie-Mensah and Adomako, 2021; AppiahKubi and Buertey, 2019). This study seeks to fill this gap in the literature by examining the moderating role of corporate governance in the connection between earnings management and dividend policy in Ghana. The findings of this study will be valuable for policymakers and practitioners in enhancing transparency in financial reporting and improving dividend policy in Ghana through effective corporate governance mechanisms.

1.3 Objectives of the Study

The primary aim of this study is to analyses the moderating influence of corporate governance factors, including board independence, board size, audit quality, and CEO duality, on the relationship between earnings management and dividend policy in Ghana. The study focuses specifically on companies listed on the Ghana Stock Exchange (GSE). The study has the following specific objectives:

i. To investigate the effect of earnings management on dividend policy in listed companies in Ghana.
ii. To examine the effect of corporate governance mechanisms on dividend policy in listed companies in Ghana.
iii. To determine the moderating effect of corporate governance mechanisms on the relationship between earnings management and dividend policy in listed companies in Ghana.

1.4 Research Questions

i. What is the effect of earnings management on dividend policy in listed companies in Ghana?
ii. What is the effect of corporate governance mechanisms on dividend policy in listed companies in Ghana?
iii. What is the moderating effect of corporate governance mechanisms on the relationship between earnings management and dividend policy in listed companies in Ghana?

1.5 Significance of the Study

The study proposed on the moderating effect of corporate governance mechanisms on earnings management and dividend policy in listed companies in Ghana has significant theoretical and practical contributions. Firstly, it will provide valuable insights into how earnings management practices affect dividend policy decisions in Ghanaian listed companies. This is crucial as earnings management practices can significantly impact the financial performance of companies, and dividend pay-out decisions can have implications for investors and the broader market.

Secondly, the study will examine the role of corporate governance mechanisms, such as board size and composition, in shaping dividend policy decisions, providing valuable information for policymakers and investors interested in promoting good corporate governance practices in Ghanaian companies. Additionally, the study will determine the moderating effect of corporate governance mechanisms on the relationship between earnings management and dividend policy decisions, helping to identify specific governance mechanisms that can mitigate the negative impact of earnings management on dividend policy decisions and guiding companies seeking to improve their governance practices. (Boachie-Mensah and Adomako, 2021; AppiahKubi and Buertey, 2019).

The proposed study offers significant theoretical contributions to the fields of corporate finance and governance. This study aims to provide empirical data about the correlation between earnings management and dividend policy choices, so making a valuable contribution to the advancement of theory in this particular domain. Additionally, by an analysis of board size and composition, this research aims to provide a valuable contribution to the existing body of literature on corporate governance procedures and their influence on choices about dividend policy. This endeavour will enhance our comprehension of the intricate connection between governance practises and results in the realm of corporate finance.

This study will make a significant scholarly contribution by investigating the relationship between corporate governance practises and the interplay between earnings management and dividend policy decisions. The potential for advancing a theoretical framework that explores the intricate relationship between earnings management, governance, and dividend policy decisions lies in the examination of specific governance mechanisms that effectively mitigate the adverse consequences of earnings management (Boachie-Mensah and Adomako, 2021; Appiah-Kubi and Buertey, 2019).

The proposed study on the effect of earnings management and corporate governance mechanisms on dividend policy in listed companies in Ghana can offer guidance for future research. Firstly, future studies could examine the impact of additional firm-level factors, such as firm size, profitability, and leverage, on dividend policy decisions in Ghanaian listed companies. This can help identify other factors that may influence dividend policy decisions in the Ghanaian context. Secondly, future studies could assess the impact of dividend policy decisions on firm performance and shareholder value. This can aid in evaluating the effectiveness of dividend policy decisions in creating value for shareholders and inform the development of dividend policy guidelines for Ghanaian listed companies.

Furthermore, it is suggested that future research endeavours should focus on investigating the impact of alternative governance arrangements on the determination of dividend policy within the context of Ghanaian listed firms. This may provide more perspectives on the correlation between governance mechanisms and choices about dividend policy. Lastly, future studies could extend the research to cover non-listed companies in Ghana and compare the findings with those of the listed companies. This can provide insights into the differences in dividend policy decisions between listed and non-listed companies in Ghana and can inform policies that seek to promote dividend payments and good governance practices in the non-listed sector (Boachie-Mensah and Adomako, 2021; Appiah-Kubi and Buertey, 2019).

1.6 Scope of the Study

The present research aims to investigate the influence of earnings management and corporate governance procedures on dividend policy choices in publicly traded firms in Ghana. The research approach used in this study is quantitative, using secondary data from financial reports and other pertinent sources to assess a sample of publicly listed firms in Ghana. The study focuses on two main variables: earnings management and corporate governance mechanisms, which are measured using proxies such as discretionary accruals and variables like board size, board independence, audit quality, and CEO duality. The objective of this research is to assess the influence of various factors on the choices made by Ghanaian listed firms on their dividend policies. Specifically, the study will focus on examining how corporate governance systems moderate the link between earnings management and dividend policy decisions. Appropriate econometric techniques will be used to test the hypotheses and analyse the data (BoachieMensah and Adomako, 2021; Appiah-Kubi and Buertey, 2019).

1.7 Summary of Methodology

The current investigation utilises a quantitative methodology, using a research design that is both correlational and descriptive in nature. The researcher obtained secondary data by examining the financial statements and annual reports of a selected sample of publicly traded firms in Ghana spanning the years 2010 to 2020. The sample selection was based on company size and industry sector. The research looks at how corporate governance mechanisms, as assessed by variables like audit quality, board size, board independence, and CEO duality, affect dividend policy choices as well as how profits management affects those decisions. The moderating effect of corporate governance mechanisms on the relationship between earnings management and dividend policy decisions is also analysed. To test the hypotheses, both static and dynamic methods were used. The use of these techniques is consistent with prior studies conducted by Almohaimmeed (2019), Dissanayake and Tawfeeq (2019), and Haque et al. (2019).

1.8 Limitations of the Study

Similar to any academic study, the suggested research concerning the impact of profits management and corporate governance procedures on dividend policy in publicly traded firms in Ghana has some constraints. The research is based on data only from Ghana, which may restrict the applicability of the results to other settings. The unique cultural, economic, and institutional factors of Ghana may impact the results, and caution should be exercised when applying the findings to other countries or regions. Secondly, the study uses secondary data, which may have limitations in terms of completeness and accuracy. The quality and availability of data can affect the reliability and validity of the findings, and researchers must take steps to ensure that the data used in the study are robust and representative. Thirdly, the study may face the challenge of endogeneity, which can occur if there are unobserved factors that influence both earnings management and dividend policy decisions. To mitigate this issue, the study will use appropriate econometric methods to control for potential endogeneity. Lastly, the study focuses on the impact of earnings management and corporate governance mechanisms on dividend policy decisions, but it does not explore the reasons behind these decisions. Further research may be needed to understand the motivations and drivers of dividend policy decisions in Ghanaian listed companies.

1.9 Organization of the Study

Five chapters make up the structure of this work. The study's introduction, problem statement, objectives, and research questions are all included in Chapter 1, along with information about the study's scope, brief methodology, limitations, and organization of the chapters. The discussion of pertinent literature in Chapter 2 includes both theoretical and empirical studies that support the moderating influence of corporate governance factors on the relationship between earnings management and dividend policy. Chapter Three deals with the methodology and methods used in the estimations and analysis of the study, while Chapter Four deals with data analysis using the various tools required and the interpretation of the study's findings. The fifth and last chapter of the study provides a summary of the key findings, conclusions, and policy implications.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a significant literature review on the topic. This chapter is structured into the following five (5) sessions: Section 2.1 gives the conceptual literature of the study, and covers concepts including, earning management, dividend policy and corporate governance systems. Section 2.2 discusses the theoretical literature encompassing agency theory and signalling theory. The empirical literature reviews are described in section 2.3, while section 2.4 set out the conceptual framework and formulation of hypotheses. Section 2.5 provides a summary of the chapter.

2.1 Conceptual Literature Review

Concepts relating to earning management, dividend policy, corporate governance and corporate governance mechanisms are explained in this section.

2.1.1 Earning Management

Bisogno and Donatella (2022) classify earnings as a distinct component of accounting records. According to Santos-Jaén et al. (2021), a company has reached its typical high point when the value of the potential income it may get from its operations is at its present level. Increased profits are indicative of an increase in the value of the institution, whilst decreasing earnings are indicative of a decrease in the value of the institution (Kliestik et al., 2021). Earnings management was defined by Durana et al. (2021) as a series of decisions made by the leadership of businesses to increase the existing quarterly revenue without the need for a matching increase in the long-term profit margins of the businesses. Profits are a reflection of a corporation's economic performance and its potential for future development. As a result, earnings motivate corporate customers to examine their current level of efficiency to improve managerial responsibilities (Fan et al., 2019). As a result, businesses must publish comprehensive financial information that allows investors and other interested parties to track their economic growth and make investment strategies (Ruwanti et al., 2019).

The standard practice inside the organisation involves the separation of ownership and administration. To maximise earnings, shareholders need qualified management to serve as their representatives (Yung and Root, 2019). When shareholders and leaders are separated, there may be an informational imbalance that permits managers to act contrary to their obligations to operate a business in the best interests of shareholders (Nalarreason et al., 2019). For this study, the definition of earnings management by Durana et al. (2021) will be adopted by the study. It states that earnings management is a sequence of decisions made by the leadership of businesses to increase the existing quarterly revenue with no need for a matching increase in the long-term profit margins of the businesses.

2.1.2 Dividend policy

Dewasiri et al. (2019) and Jabbouri (2016) are only two examples of the growing body of work that seeks to understand the variables that influence dividend policy. The choice to distribute dividends is the most essential aspect of a business's policy (Baker et al., 2018). Many decades of papers in the field of finance have been written on it (Fama and Babiak, 1968; Miller and Modigliani, 1961). Despite extensive research conducted over many decades, a consensus has yet to be reached about the underlying factors that influence dividend policy (Dewasiri et al., 2019; Barros et al., 2019; Ben Amar et al., 2018). Nevertheless, because to the robust association between these two ideas, many studies have explored the possible relationship between earnings management and dividend policy (Shah et al., 2010). Additionally, the concept of dividend policy pertains to the financial strategy of either distributing dividends in the present or increasing the payment at a future point in time (Kanakriyah, 2020).

Additionally, a company's dividend policy defines the amount and frequency with which dividend payments are made to its shareholders (Jaara, Alashhab and Jaara, 2018). When a company makes a profit, it must decide how to best put that money to use. They may either keep the money within the firm, which is the ideal option, or they can distribute it to the shareholders (seen on the balance sheet as retained earnings) (Tahir, Masri, and Rahman, 2020).

Furthermore, the dividend policy serves as a strategic framework that guides the decisionmaking process of the board of directors on the allocation of dividends within the business.

The policy outlines the procedures for sharing earnings with shareholders (Khan, 2021). Moreover, dividend policy refers to the trade-off between maintaining earnings in the firm and delivering dividends (Husni, Rahim and Aprayuda, 2020). The dividend policy of a corporation delineates the proportion of its revenues that are distributed to shareholders in the form of dividends. Some financial experts claim that dividends are unimportant to shareholders since they may always liquidate a portion of their assets when they are short on cash (Susanti, Nugraha, Yaasmiin, Maghfiroh, Ramadanti and Nasution, 2021). For this study, the phrase the dividend policy refers to financial policies that involve paying cash dividends now or providing a bigger payout later, as described by Kanakriyah (2020).

2.1.3 Corporate Governance

Agency theory implies that corporate governance is a method for exercising some amount of control over the acts of agents such as managers and subcontractors, to ensure their alignment with the aims of the firm (LHuillier, 2014). However, not all scholarly authors see corporate governance from an agency theory approach. Numerous academics (Di Vito and Trottier, 2022; Azizah, 2020; Barzuza, Curtis and Webber, 2019; Jiang and Kim, 2020) have written on the topic of corporate governance, and they do so from a wide range of theoretical perspectives other than agency theory which has led to a proliferation of unique ideas on the topic and, in turn, shifted the connotative connotations of the term. Felício, Rodrigues, Grove and Greiner (2018) define corporate governance as the system of incentives and checks that governs managerial decision-making when ownership and control are split. CG is described as the collection of procedures, organisational frameworks guidelines and moral standards that support ethical business conduct that is oriented towards the interests of various stakeholders

(Du Plessis et al., 2018). Another way to think about corporate governance is as a system of laws, regulations, and practises that influence managerial decision-making and operational activity (Pratiwi, 2016). CG is essential because it aids in formal decision-making to control hazards, reduce risks and help organisations accomplish their goals (Purbawangsa et al., 2019). Elston (2019) asserts that corporate governance is the mechanism by which lenders to enterprises assure that they will obtain a return on their investment. Corporate governance (CG), according to the Organisation for Economic Cooperation and Development (OECD, 2004), is the procedure by which a company is governed and controlled to guarantee the satisfaction of all of its owners. CG also refers to practices intended to enhance corporate accountability and prevent big disasters in their tracks, according to Ronoowah and Seetanah (2023).

2.1.4 Corporate Governance Mechanisms

Corporate governance mechanisms refer to the various processes, systems and practices that are put in place to ensure that a company, is run responsibly and ethically and that its management is accountable to its stakeholders. Some common corporate governance factors include; ownership structure, board independence, board size, and CEO duality. But the study emphasises board size, board independence, CEO duality and audit quality.

2.1.4.1 Board Size

The size of a board is determined by the total number of its members, sometimes referred to as directors (Levrau and Van den Berghe, 2007; Panasian et al., 2003). According to Goshi et al. (2002), the inclusion of both executive and non-executive members is essential for ensuring the effectiveness of a board. The organisational efficiency of the board plays a critical role in the effective management of the firm. The typical size of a board varies among countries due to cultural variations. This implies that there is no universally accepted size for corporate boards throughout the globe. According to Zabri, Ahmad and Wah's (2016) analysis of corporate governance in European companies, boards are typically larger in Belgium, France, Spain, and Germany than they are in the United Kingdom, Switzerland, and the Netherlands (Thirteen to nineteen members). Crow and Lockhart (2017) and Phuong and Hung (2020) disagreed on the optimal number of board members, with Phuong and Hung favouring a range of eight to eleven. Most small and medium-sized businesses would benefit from a board of thirteen directors.

According to studies by Gerged and Agwili (2020) and Masruki, Hanefah and Ismail (2019), major corporations may function best with an average of sixteen directors. According to These assumptions are at odds with the findings of Adegboye, Ojeka, and Adegboye (2020), who find that boards are unlikely to be more productive with more than seven or eight members. Ceil (2019) found that the optimal number of directors for boards in Malaysia and Singapore is five. Elad, Wong and Bongbee (2017) argue that factors external to the market system are crucial in deciding board size. The proper number of directors depends on the board's efficiency as a team, hence there is no ideal number of directors (Anazonwu, Egbunike and Gunardi, 2018).

2.1.4.2 Board Independence

The use of the proportion of autonomous members on the board is often employed as a surrogate measure for assessing a company's governance practices. The autonomy and impartiality of non-executive directors play a crucial role in enhancing the efficacy of the board as a supervisory body for management activities. Appointing independent directors on corporate boards is an effective way to avoid a crisis of interest between management and shareholders. According to the evidence, there is tension between the performance of the company and the independence of the board (Ahmed, 2016). According to several studies, the benefits and cons of independent boards are mixed (Isik and Folkinshteyn, 2017). There is no guarantee that the performance of the bank will improve because independent directors are now on the board. Numerous factors influence a bank's success, and they all interact with one another. Having a mix of internal and external directors on a bank's board, for example, may contribute to its success (Sorensen and Miller, 2017).

2.1.4.3 CEO Duality

When the head of the company is also the board's chief executive officer, this is known as CEO duality. In addition, CEO duality refers to a circumstance in which a company's CEO also serves as chairman of the board of directors. Changes in CEO duality, according to Mohan and Chandramohan (2021), have no noticeable effect.

Furthermore, the research found that other types of corporate governance had a bigger influence on business success. According to Hu, Taboada, and Zhang (2020), when the CEO and chairman are separated, monitoring expenses rise. In many cases, the advantages of monitoring exceed the disadvantages. Numerous studies, however, have shown a positive association between CEO dualism and organisational performance. The study conducted by Kolias, Arnis, and Kypriotelis (2019) demonstrates that the presence of CEO dualism diminishes the correlation between CEO turnover and business success. Organisations that do not have CEO duality are more inclined to mitigate the risk of bankruptcy and enhance their opportunities for acquiring fresh capital due to the heightened level of confidence from shareholders. Furthermore, it was observed that the profitability disparities between firms owned by owners (closely held) and businesses handled by managers (diffusely held) are minor.

The corporate board of directors is often seen as the apex of the internal control framework, assuming ultimate accountability for the organization's activities (Bruni-Bossio, 2021). Critics of CEO duality, on the other hand, contend that when the same individual serves in both the role of CEO and chairman of the board of directors of a company, the efficiency of the board in overseeing top management is reduced owing to a conflict of interest and a lack of independence on the part of the board, which in turn hinders the performance of the company as a whole. According to agency theory, having a CEO serve in two roles reduces the board's capacity to keep an eye on the CEO. Yet, according to resource dependence theory, boards of directors may assist limit environmental hazards by regulating the company's reliance on external sources. As a result, combining the two roles (decision management and decision control) into a single position promotes fast and optimal decisions that improve a company's performance.

2.1.4.4 Audit Quality (AQ)

Audit quality is defined by Azhar and Islahuddin (2018) as a combined market estimate of the likelihood (i) that an auditor will find a security flaw in the client's accounting system and (ii) that the auditor will be able to disclose the security flaw. The assessment of an audit's quality is contingent upon the probability of the auditor's detection of deficiencies inside the client's accounting system, as determined by the market. The definition stresses two crucial characteristics of audit quality: (a) the auditor firm's professional competence, which increases the likelihood of finding a false statement; and (b) the auditor's independence and objectivity, which decides how to proceed if a misstatement is identified. According to Ivungu, Anande, and Ogirah (2019), AQ is conceptualised as the accuracy and reliability of the auditor's information reporting. On the other hand, Boubaker, Houcine, Ftiti, and Masri (2018) describe audit quality as the auditor's ability to mitigate bias and systematically improve the quality of accounting data.

Furthermore, Alabdullah and Ahmed (2020) underscored the significance of the auditor's capacity to identify and rectify substantial manipulations and misrepresentations of unreported income as a crucial element in defining the quality of an audit. While attempting to define audit quality, it is essential to consider the dependability of the auditor's evaluation. Sumiadji and Subiyantoro (2019) concluded from their study and experience that maintaining a high degree of audit is critical for the trustworthiness of financial statement information and its utility for its intended goals. As a consequence, investors will have more data to work with when deciding based on a more realistic firm value. According to Bing, Huang, Li, and Zhu (2014), a better audit increases the possibility that an organisation's financial statements accurately portray the group's financial situation and the results of operations.

2.2 Theoretical Literature Review

The theories relevant to the study are the signalling theory and the agency theory, and these are explained in this section.

2.2.1 Signalling Theory

Michael Spence established the theory of signalling in 1973. This concept explains why managers should be able to utilise dividend policy to make predictions about the company's future profitability (Bhattacharya, 1979). The idea operates on the premise that information sharing is not uniform between actors and might fluctuate over time, leading to the information irregularity rule. According to the hypothesis, the market will become more effective when sellers can supply purchasers with information about the product or service. Financial markets can benefit from the aforementioned notion, as seen by the increased prospects of dividendpaying corporations. The management of an organisation is thought to have a better understanding of what the long-term prospects of the firm will earn than the investors. According to the dividend growth theory, a company with better-than-expected financial prospects will be able to distribute dividends above market expectations. Conversely, if a company can reduce dividends, the market would interpret this as a signal that management expects weak earnings and that existing earnings will be maintained. According to Miller and Rock (1985), firm prices on the market will decrease when dividends decrease as a result of investors selling off their stocks as a result of challenging circumstances facing the company. Information is competently signed to the market when the board is independent of the management; thus, a board that lacks independent directors would have difficulty in supplying correct and timely information to investors.

Signalling theory posits that firms exhibiting strong corporate governance practises are inclined to refrain from engaging in earnings management while demonstrating a higher propensity to distribute dividends, within the framework of earnings management and dividend policy. This is because good governance practices can signal to investors that the company has strong internal controls, transparent financial reporting, and a commitment to shareholder value, which reduces the need for earnings management and increases the likelihood of dividend payments. Empirical studies have provided support for the signalling theory in the context of earnings management and dividend policy. Karampinis and Hevas (2012) conducted a study which revealed that companies that implement robust corporate governance practises have a reduced inclination towards engaging in earnings management. Similarly, Gul et al. (2013) found that firms with higher levels of board independence, audit quality, and shareholder monitoring are more likely to pay dividends In summary, signalling theory suggests that corporate governance practises can play a significant influence in defining a company's profits management and dividend policy by indicating to outside investors the quality of the company's financial reporting and performance. Companies that practise excellent governance are more likely to be perceived as reliable and trustworthy by investors, which can lead to a higher value and easier access to capital markets.

2.2.2 Agency Theory

Jensen and Meckling introduced the concept of agency, often known as agency theory, in 1976. The agency theory provides a thorough comprehension of the complicated interplay between a principle, frequently a management, and an actor. The depiction of organisational management, encompassing both executive leadership and managers' subordinate roles, is critical in creating a realistic representation. According to this theory, top corporate leaders (who are also the company's greatest shareholders) actively seek and hire the most capable agents to achieve specific goals. The principals take on the role of owners, while the managers take on the role of agents (Clarke, 2004). There is evidence that the agency theory, metaphorically, shows the link between the ownership and management structures. In circumstances of division, the idea is also applied so that team members' management responsibilities align with those of the business's proprietor (Jensen and Meckling, 1976). Given that corporate governance affects a company's dividend distribution policy in addition to payouts, it is seen to be an effective method for controlling agency expenses. Agency costs have a negative influence on dividend distribution whenever managers are reined in as a consequence of effective governance policies. This is because less cash is available to be allocated to shareholders (John & Knyazeva, 2006). According to the concept, agents must complete assignments while keeping the principal's best interests in mind. As the agent is acting on behalf of the principal, he or she must resist the urge to act in their self-interest (Padilla, 2000). In some circumstances, the agent may succumb to their own self-interest or engage in opportunistic behaviour, leading to a situation where the client's expectations are not met (Bhimani, 2008, p. 13). According to this idea, the major goal of any business should be to increase the amount of money that is brought in by the shareholders. Agents are kept in check by the regulations that are established by the principle (Clarke, 2004). Empirical studies have provided support for agency theory in the context of earnings management and dividend policy. As shown by Beasley's (1996) study, organisations that possess robust governance structures have a decreased propensity to partake in earnings management. Similarly, Johnson et al. (2000) found that CEO compensation and board independence are positively connection with dividend payments. In general, agency theory indicates that elements of corporate governance can be crucial in reducing agency conflicts and coordinating management and shareholder interests. Corporate governance can lessen the possibility of profits management and raise the possibility of dividend payments by improving monitoring and oversight of management.

2.3 Empirical Literature Review

2.3.1 Earnings Management and Dividend Policy

Koutoupis and Davidopoulos (2022) have shown that dividend policy does affect earnings management. The study looked at the financial performance of 17 publicly traded firms on U.S. exchanges between the years 2012 and 2019. Using linear regression on panel data, they find that the dividend policy influences how much managers bend the rules using discretionary accruals. Hence, the signalling hypothesis, which emphasises the significance of a consistent dividend policy, is supported by the findings.

Hussain and Akbar (2022) analysed the connection between dividend policy and earnings management by taking into account the agency problem and financial limitations. From 2009 to 2018, 3250 non-financial Chinese listed enterprises were included in the sample. The study's most important results are as follows: It has been found that (1) managers at large dividendpaying firms are less likely to engage in earnings management practises than managers at small dividend-paying firms; (2) the agency problem does not alter the proposed relationship's nature; and (4) dividend payments from financially unrestrained firms reduce managers' opportunistic behaviour towards earnings management practises.

Lopes and Narciso (2020) assessed whether or not earnings management methods affect the dividend policy of organisations, especially regarding different forms of ownership. The empirical research uses a novel panel of 4,258 unlisted private enterprises, totalling roughly 20,000 observations from 2013–2017. The results show that private, non-listed enterprises are more likely to pay dividends when they actively manage their earnings. It turns out that the degree of ownership concentration has a huge impact on how well earnings management strategies can foretell dividend policy. The authors illustrate that the influence of earnings management on dividend policy in privately-held non-listed corporations is statistically significant just in organisations where shareholders own majority control (i.e., more than 50% of share capital). This conclusion is drawn by conducting a comparative analysis between firms with concentrated ownership and those without.

In a study conducted by Solomon (2017), the author examined the impact of dividend policy on the overall financial performance of firms operating in Nigeria. The data was collected from the annual reports and financial statements of the firms spanning the years 2000 to 2016. The dependent variable in this study was the return on equity (ROE), whereas the independent variables were earnings per share (EPS), dividends per share (DPS), dividend payout ratio (DPR), and business size. These variables were analysed using an ordinary least squares regression model. The study found that dividend per share, dividend payout ratio, and firm size all have a significant impact on the performance of Nigeria's banking sector, while earnings per share alone does not. However, dividend policies as a whole had a significant influence on the performance of Nigeria's banking sector.

2.3.2 Corporate Governance Mechanisms and Dividend Policy

Corporate governance measures including Board Size and Independent Directors were used by Pahi and Yadav (2018) to investigate the relationship between corporate governance and dividend policy for 360 non-utility and non-financial Indian businesses included in the BSE 500 index between 2012 and 2016. To account for differences across firms, this research included control variables at the company level, such as business size, beta, profitability, and liquidity. The research used Tobit and Logit models to demonstrate that the dividend payout ratio of the selected corporations was considerably and adversely driven by non-executive directors and significantly and positively determined by board size. Both estimated models revealed that the utilisation of additional firm-specific control parameters in the research had a significant effect on dividend payment ratios. The results as a whole indicate that dividends may be used as an alternative to corporate governance to keep an eye on the agency problem.

Nazar (2021) assessed the influence of corporate governance on dividend payouts for 198 nonfinancial businesses trading on Sri Lanka's Colombo Stock Exchange between 2009 and 2016. Panel data regression models were estimated using the Generalised Method of Moments (GMM) model. The study found that the dividend payout ratio was significantly improved by the presence of management ownership. The dividend payout ratio was positively correlated with board size. The dividend payment ratio was severely damaged by the board's autonomy. The dividend payment ratio was somewhat reduced due to a CEO who had dual roles. Within the context of these CG indicators, it is suggested that Sri Lankan listed enterprises have widespread ownership, a sizable Board, and a separation of the CEO and the Chairman of the Board, as well as the maintenance of at least two independent directors.

Nguyen, Dang and Dau (2021) analysed how corporate governance (CG) in Vietnam affects the dividend policy (DP) of local businesses. The present research utilises a dataset of 2,937 observations that cover the time frame from 2008 to 2018. Its objective is to investigate the impact of corporate governance on dividend policy within the context of companies listed on the Vietnam Stock Exchange. Data about these organisations is aggregated from several sources, including the financial statements of enterprises and information collected from other reputable securities websites. Information gathered from Vietnam's stock exchange between 2008 and 2018 was analysed using the GLS regression technique. According to the findings of the study, the DP is negatively impacted by the positions of CG, chairman of the board and managing director. Companies with solid BODs, in particular, are characterised by their modest dividend payments.

The study conducted by Gunawan, Murhadi, and Herlambang (2019) aimed to investigate the impact of effective corporate governance practises on dividend disbursements. The sample for this research consisted of all non-financial firms that were listed on the Indonesia Stock Exchange. Control variables included firm size, profitability, leverage, growth, and free cash flow. The dividend payout ratio was shown to be positively correlated with indicators of healthy business management, revenue growth, and cash on hand. However, factors including company size, debt, and profitability all had a negative impact on the dividend payout ratio.

Farooque, Hamid, and Sun (2021) performed research that investigated the correlation between corporate governance and dividend policy in publicly listed Australian companies. The research findings demonstrate a noteworthy association between dividend disbursement and many variables, such as the level of independence within the board, the size of the board, the extent of institutional ownership, and the engagement of a Big-4 audit firm (as well as CEO duality and management ownership). The research uses a dataset including 1,438 distinct company-year observations spanning the years 2005 to 2011. There is a notable link between management ownership and dividend yield, indicating a positive (negative) relationship. The findings of this study indicate a positive relationship between dividend policy and corporate governance processes, suggesting that the two factors collaborate in mitigating agency costs. Specifically, firms that provide higher dividend payouts have a greater propensity to engage in effective governance practises and establish strong systems for monitoring and control.

2.3.3 The role of Corporate Governance in the dividend policy – earning management relationship.

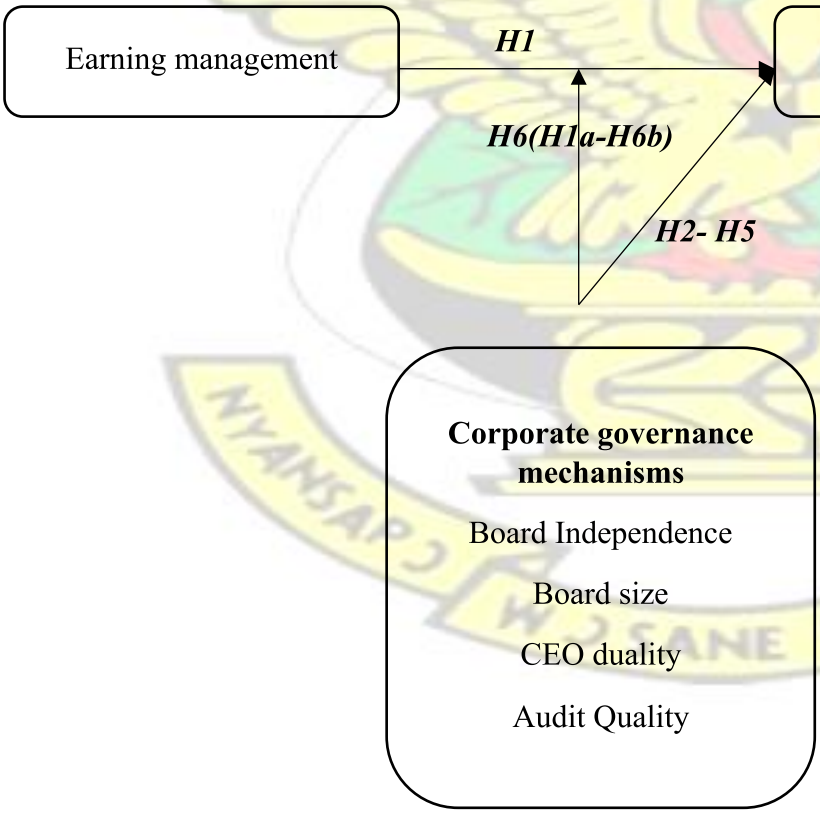
The impact of corporate board characteristics on the dividend pay-out ratio was investigated by Elmagrhi, Ntim, Malagila, Crossley, Fosu, and Vu (2017). Small and medium-sized businesses (SMEs) from the United Kingdom listed on the Alternative Investment Market between 2010 and 2013 were used as a sample for the study. The data is analysed using several multivariate regression approaches, including the estimation of lagged effects, fixed effects, and two-stage least squares regressions. The research found that dividend payout was positively correlated with board meeting frequency, board size, board gender diversity, and audit committee size. Both the size of the audit committee and the size of the board are correlated with the dividend payout. However, dividend payout is inversely related to the number of board meetings held and the representation of women on the board.

Mehdi, Sahut, and Teulon (2017) conducted research in which they examined the governance and ownership structure of developing markets during times of financial crisis, as well as the effects that these factors had on dividend policies. The aforementioned results provide substantial evidence that underscores the crucial significance of board characteristics and ownership structure when examining dividend policy, particularly during times of crisis. It has been observed that companies with a higher concentration of institutional investors tend to have a stronger inclination towards allocating a bigger proportion of their earnings for dividend distribution. In times of economic uncertainty, the research has important implications for how business leaders should approach dividend policy.

Kilincarslan (2021) looked at how the influence of controlling families might be balanced with that of minority shareholders by examining the effect of board independence on cash dividend payments of family enterprises listed on the Borsa Istanbul after 2012. The study model includes alternative regression approaches and dependent variables, and is applied to several sub-groups to increase robustness; the dataset used is a panel of 153 BIST-listed family enterprises from 2012-2017. There is a significant favourable influence of board independence on dividend choices, according to the empirical evidence. The authors note that some results have occurred from the adoption of mandatory legislative requirements in the Turkish market. In particular, they find that audit committees and the size of the board have beneficial impacts on the dividend policy of Turkish family enterprises, but family directorship has a negative effect. However, the presence of chief executive officer (CEO) duality does not appear to have a discernible impact on these policies.

2.4 Conceptual Framework and Hypothesis Formulation

The link between earnings management and dividend policy is moderated by corporate governance. Agency theory posits that a fundamental conflict of interest may arise between shareholders and managers inside an organisation. To mitigate this conflict, corporate governance methods may be used to align the divergent interests of different stakeholders. In the context of dividend policy, earnings management can be seen as a way for managers to manipulate reported earnings and influence dividend payouts to their advantage. Strong corporate governance practices can provide oversight and ensure that dividend policy is based on accurate and reliable financial information. The independent variable is earnings management, and the dependent variable is the dividend policy and the interaction effect of corporate mechanisms on earnings management and dividend policy.



Source: Author’s Construct (2023)

Hypothesis Formulation Earnings Management and Dividend Policy

The study conducted by Shahwan and Almubaydeen (2020) reveals a discernible association between profits management and dividend policy, but with a relatively low coefficient indicating a weak relationship. The study done by Aurangzeb and Dilawer (2012) examined the impact of earnings management on dividend policy within a comparable context. The findings showed a very statistically significant inverse correlation between earnings management and dividend policy. Saleem and Alifiah (2017) did a similar investigation on the connection between capital expenditure, earnings management, and dividend distribution. The research concluded that earnings management is unhelpful in determining a company's dividend policy and has no bearing on the dividend distribution decisions of any company.

Nevertheless, contrary to the main research premise, Shahwan and Almubaydeen (2020) found a positive and significant correlation between profits management and dividend policy. These findings suggest that if a company's discretionary accruals grow, so too will its dividend payout ratio. There was found to be no connection between earnings management and dividend policy in the research conducted by Wahyono, Novianto and Putri (2019) on the Karachi Stock Exchange in Pakistan. Smaller companies were also found to have a higher dividend payment rate than their bigger counterparts in the study. This research shows that management does not participate in deciding dividend policy and that earnings management may be motivated by factors other than dividends. Khanna & Khanna's (2010) and Senevirathna (2019) findings are consistent with Wahyono, Novianto and Putri (2019).

H1: There is a negative effect of earnings management on dividend policy.

Corporate Governance and Dividend Policy

The presence of independent directors on the board can influence dividend policy (Rahman and Saima, 2018). This assumption is supported by substantial evidence provided by Chen et al. (2011). Furthermore, Nazar (2021) discovered that board independence has a negative impact on dividend policy. Setia-Atmaja (2017) discovered the inverse in Australia between 2000 and 2005, when they discovered a positive correlation between board independence and dividend payout. Yarram and Dollery (2015) from Australia and Tahir and Mushtaq (2017) from Pakistan support these findings (2016). The greater the number of independent board members, the more likely it is that shareholders will benefit.

Also, research by Bokpin et al. (2017) opined that, having dual CEOs is associated with a higher dividend payout ratio. Yarram and Dollery (2015) discovered a positive relationship between dividend policy and CEO duality. On the other hand, Abor and Fiador (2013) discovered that CEO duality has a negative impact on dividend distribution in Nigerian firms. This suggests that dividend distribution has a positive effect on board composition and that companies in Ghana with a history of paying out large dividends are more likely to implement effective corporate governance practises. Furthermore, Bista et al., 2019) discovered an inverse relationship between CEO dualism and dividend payments.

Additionally, existing literature identifies board size as a determinant of dividend selection. There is a risk that a small board will be unable to carry out the desired governance functions. However, boards with a large number of members may be ineffective and may not help reduce manager-shareholder conflicts of interest. To appease a broader range of shareholders, members of a larger board may vote to increase dividend payments. The dividend payout ratio is positively correlated with the size of the board of directors, according to Mardani and Indrawati (2018). Furthermore, Nazar (2021) discovered that large boards of directors are associated with poor dividend distribution in publicly traded Nigerian corporations. Companies with higher dividend distributions are more likely to have a well-rounded board of directors, implying that these companies are more concerned with looking out for the best interests of their shareholders. A larger board may improve the ability to retain profits and fund superior investment opportunities.

Farooque, Hamid, and Sun (2021) discovered a strong positive relationship between Big-4 audit quality and dividend policy. Similarly, Trang (2012) discovered that audit quality had a materially positive impact on dividend policy. The Big Four are better equipped to provide high-quality auditing services than smaller firms (Al Farooque, Hamid, and Sun, 2019,2021a, 2021b; Nwobodo, 2017). Cash dividends are smaller and information asymmetry is more prevalent in businesses with poor audit quality, according to Masry Sakr and Amer (2018). This suggests that there is a significant positive relationship between dividend policy and audit quality, with audit quality operationalized as the participation of the Big-4 accounting firms.

H2: There is a positive relationship between BI on DP.

H3: There is a negative relationship between CEO duality on DP.

H4: There is a positive relationship between BS on DP.

H5: There is a positive relationship between AQ on DP.

The Moderating Role of Corporate Governance

The notion posits that corporate governance plays a pivotal role in influencing both earning management and dividend policy, with organisations characterised by robust corporate governance frameworks being more inclined towards ethical and transparent practises. A study by Ameer and Othman (2012) found that firms with stronger corporate governance structures were more likely to pay out higher dividends, which they interpreted as a signal of financial health and future growth prospects. Similarly, Dramani and Tetteh (2019) and Eshun et al.

(2021) discovered that corporate governance mechanisms such as board size, board independence, and audit committee effectiveness affect the relationship between earnings management and dividend policy in Ghanaian listed businesses. The authors argue that the adoption of strong corporate governance measures has promise in mitigating the negative consequences of profit manipulation on dividend policy, hence bolstering long-term shareholder value. Two other studies, conducted by Fosu et al. (2020) and Krah et al. (2019), investigated the impact of corporate governance on the correlation between earnings management and dividend policy in the banking industry of Ghana. According to the authors, strong CG measures such as independent board supervision and competent audit committees might minimise the detrimental effects of profits management on dividend policy in Ghanaian banks.

H6: There is a moderating effect on the relationship between earning management and dividend policy.

2.5 Summary of Chapter

The link between profits management and dividend policy is studied, along with the effect of corporate governance. The research project included a thorough analysis of the existing academic literature. Some corporate governance factors, such as board independence, board size, and CEO duality, may influence the actions of managers and hence reduce the prevalence of earnings management practises (Adomako et al., 2020; Baidoo et al., 2019).

Although this subject has been extensively debated in financial literature, with scholars attempting to establish associations between dividend policy and various financial, economic and cultural factors (Kweku-Muata and Owusu-Antwi, 2018; Puspitasari and Puspita, 2020; Adarkwah et al., 2021; Amankwah-Amoah and Debrah, 2019; Arthur and Fosu, 2021; Tran et al., 2020). However, despite the vast research on this topic, there is no agreement on the fundamental determinants of dividend policy (Tran et al., 2020). Recent studies have shown conflicting results regarding the connection between earnings management and dividend policy, and some research has suggested that corporate governance variables could moderate this relationship (Boachie-Mensah and Adomako, 2021; Appiah-Kubi and Buertey, 2019). The primary objective of this research is to address the existing knowledge gap by investigating the moderating influence of corporate governance on the relationship between profits management and dividend policy in the context of Ghana.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter describes the method that was applied in carrying out the study. This chapter is divided into the following Sections: research design (3.1), data (3.2), methods (3.3), model specification (3.4), research variables (3.5) and chapter summary (3.6).

3.1 Research Design

The correlational design and descriptive research design were used in this investigation. According to Ahmed et al. (2013), descriptive research involves the collection of data in order to test hypotheses or address inquiries pertaining to the present state of the subject under investigation. Descriptive research is used to identify and characterise the existing situation. Descriptive research is scientific research that carefully describes an event, phenomenon, or fact about a certain location or population. Furthermore, the use of a correlational design facilitated the researcher's investigation into the moderating impact of corporate governance systems on the association between earnings management and dividend policy within the context of listed firms in Ghana. Furthermore, the selection of the correlational design and descriptive research design is based on a previous empirical study conducted by Wijethilake and Ananda (2021).

3.2 Data

The choice of data source depends on the study's objectives, and in this research, secondary data is more appropriate for testing the hypotheses presented in Chapter two. The necessity to gather secondary data on how businesses feel about the role of corporate governance procedures in taming the correlation between profits management and dividend policy in Ghanaian listed companies justifies this action. In this research, yearly financial reports from a selection of GSE-listed companies served as the secondary data source. The study employed partial frontier approaches to identify and eliminate outliers and purged the study sample of firms with missing data for some variables of interest. Only firms listed on GSE were included in the study due to data availability.

A sampling of ten companies that were listed on the GSE (Ghana Stock Exchange) from 2010 to 2021 was made based on constraints in terms of available resources and time. The participants for this study were chosen by purposive sampling, also known as judgemental sampling. The selection of this sampling technique was predicated on the degree to which the units comprising the target population meet the requirements for easy access to the pertinent data (Ahmed and Ahmed, 2021; Adarkwah et al., 2021; Amankwah-Amoah and Debrah, 2019; Arthur and Fosu, 2021). The researcher eliminated companies with fewer than ten consecutive annual observations and whose estimates of the translog cost function for the Lerner index are missing, null, or negative. When outliers were found, the variable was winsorized at the 99th percentile. The final sample for this study consists of 10 firms listed on GSE between 2010 and 2021, meeting the criteria mentioned earlier. All variables for this study were obtained from the financial reports of the selected firms. This study employs a panel data methodology with a data pool spanning the years 2010 to 2021.

3.3 Methods

This study utilises static and dynamic panel estimating techniques to investigate the moderating effect of corporate governance measures on the relationship between earnings management and dividend policy in publicly listed firms in Ghana. The study builds upon the previous research conducted by Adarkwah et al. (2021), Amankwah-Amoah and Debrah (2019), and Arthur and Fosu (2021). Static methods such as pooled OLS, the REs model, and the FEs model are implemented. As examples of dynamic procedures, this study looks at the both system and different GMM estimators. Equation (3.1 and 3.2) is derived through an examination of the moderating effect of corporate governance mechanisms on the relationship between earnings management and dividend policy in listed companies in Ghana using static panel estimation methods. The Breusch-Pagan Lagrange Multiplier (LM) test is used to check if the crosssections pooled OLS and the random effect (RE) model are truly incompatible. If this null hypothesis holds, then the cross-section pooled OLS method has problems. To select between the fixed effect (FE) and random effect (RE) models, the Hausman criterion test first determines whether or not the random effect is consistent and efficient.

3.4 Model Specification

Examining how corporate governance practices in Ghanaian publicly listed companies affect the connection between profits management and dividend policy is the focus of this study. The static model is expressed as dividend policy = f (corporate governance mechanisms, earnings management, and Control Variables). The researcher also employs panel regression to examine the impact of earnings management and corporate governance mechanisms on dividend policy in Ghana's publicly traded companies. From the static model, the chapter one objectives are analyses using:

$$DP_{it} = \beta_0 + \beta_1 EM_{it} + \beta_2 AQ_{it} + \beta_3 CEOD_{it} + \beta_4 BINDP_{it} + \beta_5 BS_{it} + \beta_6 FS_{it} + \beta_7 LEV_{it} + \varepsilon_{it} \quad (3.1)$$

To test the moderating role of corporate governance mechanisms on the link between earnings management and dividend policy

$$DP_{it} = \beta_0 + \beta_1 EM_{it} + \beta_2 AQ_{it} * EM_{it} + \beta_3 CEOD_{it} * EM_{it} + \beta_4 BINDP_{it} * EM_{it} + \beta_5 BS_{it} * EM_{it} + \beta_6 FS_{it} + \beta_7 LEV_{it} + \varepsilon_{it}$$

$Where\ DP_{it}\ is\ the\ dividend\ policy\ of\ firms\ i\ over$ The period t, EM_{it} is the Earnings management of firms i over the period t, $AQ_{it}$is the audit quality is the audit quality of firms i over the period t, $CEOD_{it}$ is the CEO duality of firms i over the period t, $BINDP_{it}$ is the board independence of firms i over the period t, BS_{it} is the board size of firms i over the period t, FS_{it} is the firm size of firms i over the period t, and LEV_{it} is the firm leverage of firms i over the period t. Also ε_{it} is the error term in the model

3.4.1 Diagnostic Testing

The issue of endogeneity in the field of financial management presents a significant obstacle, which may be effectively tackled by using the two-step system estimator method proposed by Arellano and Bover (1995) and Blundell and Bond (2000) in their respective works. In order to address the issue of endogeneity, scholars include a lagged dependent variable into the explanatory variable and using the two-step system generalised method of moments (GMM) to construct instruments for endogenous variables. The instruments consist of past values of all potentially endogenous variables (Kharisma et al., 2021). The reliability of using multiple lags as an instrument is tested using the Hansen/Sargan test (Amankwah-Amoah and Debrah, 2019; Arthur and Fosu, 2021), while the presence of first and second-degree serial correlation is determined using the AR (1) and AR (2) tests (Owusu-Ansah, 2017; Yeboah and Quartey, 2018).

In addition to endogeneity, multicollinearity can also affect regression findings, particularly if the independent variables are strongly interrelated (Dayanandan, Donker, Ivanof, and Karahan, 2016). A variance inflation factor (VIF) test is employed to evaluate the presence of multicollinearity, with a value of one indicating uncorrelation and values larger than five indicating substantial correlation (Esmail et al., 2020; Al-Ani et al., 2020; Tran et al., 2020). A VIF higher than 10 should raise red flags as it implies a high degree of connectivity and less credible regression findings. Moreover, a panel regression model assumes that variables are uncorrelated, but serial correlation can occur, leading to inefficient regression estimates. The issue of endogeneity in the field of financial management presents a significant obstacle, which may be effectively tackled by using the two-step system estimator method proposed by Arellano and Bover (1995) and Blundell and Bond (2000) in their respective works. In order to address the issue of endogeneity, scholars include a lagged dependent variable into the explanatory variable and using the two-step system generalised method of moments (GMM) to construct instruments for endogenous variables.

3.4.2 Robustness Checks

The researchers in this study employed a dynamic model to ensure the robustness of their tests and account for various statistical issues such as heteroscedasticity, endogeneity, serial correlation, and the persistence of financial performance over time. The use of a dynamic model is in line with the recommendations of Adomako et al. (2020), Christensen et al. (2019), and Cornett et al. (2018) to address these issues. The researchers used the efficient and consistent generalised method of moments (GMM) estimator developed by Arellano and Bond (1991) in order to estimate the dynamic model. Specifically, for the linear regression of the dynamic model represented in Eqns (3.1 and 3.2), the following equation was used:

$$DP_{it} = \beta_0 + \beta_1 DP_{it-1} + \beta_2 EM_{it} + \beta_3 AQ_{it} + \beta_4 CEOD_{it} + \beta_5 BINDP_{it} + \beta_6 BS_{it} + \beta_7 FS_{it} + \beta_8 LEV_{it} + \varepsilon_{it} \quad (3.3)$$

$$DP_{it} = \beta_0 + \beta_1 DP_{it-1} + \beta_2 EM_{it} + \beta_3 AQ_{it} * EM_{it} + \beta_4 CEOD_{it} * EM_{it} + \beta_5 BINDP_{it} *$$

$EM_{it} + \beta_6 BS_{it} * EM_{it} + \beta_7 FS_{it} + \beta_8 LEV_{it} + \varepsilon_{it}$ (3.4)

3.5 Research Variables

Table 3.1: Variable Description and Measurement

Variables	Operationalisation	Literature source
	Dependent variable	
Dividend Policy	Dividend payment and dividend propensity (dividend policy). Dividend decision: paid or not paid) is a binary variable for dividend propensity And the dividend yield is our proxy variable for dividend payout and is calculated as dividend per share divided by market value per share	Ben Salah and Jarboui (2022)
	Independent variable	
Earnings management	Discretionary accruals (DAC) are measured as residuals under the Kothari et al. (2005) model	Ben Salah and Jarboui (2022)
	Moderating Variables	
Board size	Number of board members squared	Ben Salah and Jarboui (2022)
Board independence	Proportion of non-executive directors out of total board size	Ben Salah and Jarboui (2022)
CEO Duality	Number of outside directors out of the total number of audit committee members	Ben Salah and Jarboui (2022)
Audit Quality	Dummy variable, where 0 means that the firm is not audited by any of the Big Four and 1 represents the firm is audited by the big four	Ben Salah and Jarboui (2022)
	Control Variables	Ben Salah and
Leverage	Long-term debt divided by total assets of the firm	Jarboui (2022)
Firm Size	Natural log the total assets	

Source: Authors Compilation (2023)

3.6 Chapter Summary

This chapter provides an overview of the strategies and processes that will be used to achieve the goals of the research. This chapter provides further information regarding the study's design, including its data and source, methodology, and model formulation. Also included were the study's variables and the outcomes of any diagnostic tests run on the employed research model.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the results and discussions of the study. This chapter is organized as follows: section 4.1 presents the preliminary analysis which includes the descriptive statistics and the correlation analysis. Section 4.2 to 4.4 presents the results of the study. Section 4.5 and 4.6 presents the robustness test performed on the data and the chapter summary.

4.1 Preliminary Analyses of Data

The preliminary analysis of the data is presented in this section to provide an understanding of the variables of the study.

4.1.1 Descriptive Statistics

Dividend Policy (DP) demonstrates that the average dividend policy for companies in the dataset is 16.765. This indicates that, on average, corporations maintain a moderate dividend distribution strategy. The range of values, ranging from a maximum of 48.750 to a minimum of 0.888, indicates diversity in dividend policies throughout the dataset. The standard deviation of 12.56 demonstrates the substantial variation in dividend policy decisions among the included companies. The calculated mean score of 12.428 for Earnings Management (EM) suggests that, on average, organisations partake in a certain degree of earnings management. This suggests that companies may employ earnings manipulation strategies. The dataset contains extreme cases with a maximum value of 815.322, indicating the existence of significant earnings management practices in some instances. In contrast, the minimal value of 0.018 indicates companies that refrain from such practices. The dataset exhibits a broad variety of earnings management practices, as seen by a standard deviation of 78.937. The mean value of 9.314 for Board Size (BS) represents the average board size of companies in the dataset. A larger board size may be indicative of a greater diversity of perspectives and expertise. The utmost value of 15.000 indicates that some companies have larger boards with more directors, which could facilitate a broader representation of stakeholders and stronger decision-making processes. In contrast, the minimal value of 6.000 indicates that some companies within the dataset have smaller boards with fewer directors. The variance in board sizes across the dataset is reflected by the standard deviation of 1.713.

Table 4.1 Descriptive Statistics

Variable	Mean	Max	Min	Std. Dev	Observation
DP	16.765	48.750	0.888	12.567	119
EM	12.428	815.322	0.018	78.937	119
BS	9.314	15.000	6.000	1.713	119
BINDP	0.528	0.857	0.000	0.200	119
CEOD	0.908	1.000	0.000	0.291	119
AQ	0.891	1.000	0.000	0.313	119
LEV	1.246	26.894	0.000	3.240	119
FS	16.954	26.503	0.000	8.150	119

Source: Author Computation (202*3) Where DP is Dividend Policy, EM is Earnings management, BS is Board size, BINDP is Board independence, CEOD is CEO Duality, AQ is Audit Quality, LEV is Leverage, and FS is Firm Size*

Board Independence (BINDP) reveals that the mean value of 0.528 represents the mean level of board independence in the dataset. A greater value indicates a more independent and conflict-free board of directors. The utmost value of 0.857 indicates that some companies have a greater proportion of independent board members. The minimum value of 0.000 indicates that certain companies lack independent directors on their boards. The variance in board independence levels across the dataset is reflected by a standard deviation of 0.200. With a mean value of

0.908, CEO Duality (CEOD) indicates that, on average, companies in the dataset have a high level of CEO duality. The maximum value of 1.000 indicates that some companies have a dual-CEO structure, whereas the minimal value of 0.000 indicates that other companies have distinct leaders. The variance in CEO duality across the dataset is represented by a standard deviation of 0.291%. Audit Quality (AQ) reveals that the average audit quality is

0.891%. The audit quality reflects the rigour and efficiency of the external auditing procedure. The mean value indicates that the audit quality of the dataset is relatively high. The maximum value of 1.000 suggests that some companies have a very high audit quality standard, while the minimum value of 0.000 suggests that some companies may have audits of inferior quality. The variance in audit quality across the dataset is represented by the standard deviation of

0.313.

4.1.2 Correlation Analysis

Dividend Policy (DP) exhibits a perfect positive correlation of 1 with itself. This observation suggests a strong connection between the variable and its own values. Earnings Management (EM) and Dividend Policy (DP) have a modest positive correlation of 0.0342. This indicates a slight positive correlation between the two variables, suggesting that companies with higher dividend policies may engage in slightly more earnings management. The correlation coefficient, however, indicates that this relationship is weak. Board Size (BS) and Dividend Policy (DP) have a modest positive correlation of 0.0499. This suggests that there may be a slight tendency for corporations with larger boards to have dividend policies that are slightly more generous. The correlation coefficient, however, indicates that the relationship is relatively feeble. Board Independence (BINDP) and Dividend Policy (DP) have a weakly positive correlation of 0.0299. This suggests that companies with more independent boards may have marginally more generous dividend policies. Again, the correlation coefficient indicates that the relationship is relatively feeble.

Table 4.2 Correlation Analysis

S/N	Variable	1	2	3	4	5	6	7	8
1	**DP**	1							
2	EM	0.0342	1						
3	BS	0.0499*	0.0982*	1					
4	BINDP	0.0299*	0.2640*	0.022***	1				
5	CEOD	0.9904*	0.0994*	0.035***	0.0428*	1			
6	AQ	0.3949*	0.0928	0.052***	0.0034	0.5214*	1		
7	LEV	0.091*	0.0442*	0.159***	0.2820*	0.9942*	0.2409*	1	
8	FS	0.0324	0.0473*	0.054***	0.0594*	0.2839	0.0094	0.0242	1

Source: Author Computation (2023) *Where DP is Dividend Policy, EM is Earnings management, BS is Board size, BINDP is Board independence, CEOD is CEO Duality, AQ is Audit Quality, LEV is Leverage, and FS is Firm Size*

CEO Duality (CEOD) and Dividend Policy (DP) have a substantial positive correlation of 0.9904. This suggests that companies with CEO duality, where the CEO also functions as the board head, tend to have higher dividend policies. The high correlation coefficient suggests that these variables are strongly associated. Audit Quality (AQ) and Dividend Policy (DP) have a moderately positive correlation of 0.3949. This suggests that companies with superior audit quality may have more generous dividend policies. The correlation coefficient indicates that the relationship is of moderate strength. A correlation of 0.091 exists between Leverage (LEV) and Dividend Policy (DP). This suggests that companies with higher leverage ratios may have dividend policies that are marginally more generous. The correlation coefficient, however, suggests a relatively feeble relationship. Firm Size (FS) and Dividend Policy (DP) have a weakly positive correlation of 0.0324. This suggests that larger enterprises may have dividend policies that are marginally more generous. Again, the coefficient of correlation indicates a feeble relationship.

4.2 The Effect of Earnings Management on Dividend Policy

The coefficient for earnings management (EM) reveals a statistically significant positive effect on dividend policy, this aligns with (Danquah et al., 2019; Donkor et al., 2019). This suggests that earnings management practices impact the decisions firms make regarding dividend payments. Earnings management is the manipulation of financial statements, which allows corporations to control their reported earnings. Firms' dividend policy decisions are profoundly affected by earnings management, the process of manipulating financial statements to influence how much money is represented as having been earned. Companies are more likely to boost dividend policy measures when they engage in more profit management operations. Managers may participate in earnings management to better align their interests with those of shareholders, as suggested by agency theory (Adarkwah et al., 2021; Amankwah-Amoah and Debrah, 2019), which is supported by the results of this research. Managers seek to attract investors and enhance the firm's reputation by maintaining consistent dividend payments or signalling positive earnings through manipulation. Consequently, higher reported earnings as a consequence of earnings management practices serve as the basis for increasing dividend payments.

Table 4.3 Fixed Effect Estimate

	Dependent variable (Dividend Policy)			
Variables	Coefficient	Std. Error	t-statistics	P-Value
EM	0.0299	0.0084	3.56	0.001***
LEV	0.0167	0.0082	2.024	0.045**
FS	0.662	0.139	4.764	0.001***

R-squared	0.592	
Adjusted R-squared	0.398	
Durbin-Watson stat		0.937
Breusch-Pagan Test		0.372
Hausman Test		0.009

Source: Author Computation (2023) *Where EM is Earnings management, LEV is Leverage, and FS is Firm Size*

Nonetheless, it is crucial to evaluate critically the potential drawbacks of earnings management and its impact on dividend policy decisions. Earnings management practices that are excessive have the potential to distort financial information, mislead investors, and raise concerns regarding corporate governance and transparency. Such practices can have negative repercussions, which may ultimately have an adverse effect on dividend policy decisions. Financial information must be accurate and trustworthy for stakeholders to make informed decisions. Earnings management that is excessive can compromise the accuracy and dependability of financial statements, eroding investor trust and confidence in the company. This, in turn, may reduce investors' propensity to invest in the company's stock or impact the company's access to capital markets.

4.3 The Effect of Corporate Governance Mechanisms on Dividend Policy

The coefficient for board size (BS) suggests a positive correlation between the size of the board and the policy regarding dividend distribution. Based on agency theory, there exists a positive correlation between the size of a board and the implementation of dividend policy actions. A larger board allows for increased surveillance and supervision, which can lead to more favourable dividend policies. This conclusion is corroborated by research by Kharisma et al. (2021) and Ahmed and Ahmed (2021), among others. The coefficient for board independence

(BINDP) indicates that board independence and dividend policy are positively related. Typically, firms with a greater proportion of independent board members have a higher dividend policy. The aforementioned discovery aligns with the principles of agency theory, which posits that the presence of autonomous directors may enhance the implementation of effective corporate governance measures and advance the interests of shareholders, ultimately leading to increased dividend distributions. This is corroborated by Amponsah et al. (2021) research.

Table 4.4 Fixed Effect Estimate

	Dependent variable (Dividend Policy)			
Variables	Coefficient	Std. Error	t-statistics	P-Value
BS	0.0334	0.0069	4.826	<0.001***
BINDP	0.0413	0.0028	14.75	<0.001***
CEOD	0.0121	0.0034	3.559	0.001***
AQ	-0.0162	0.0198	-0.819	0.413
LEV	-0.0184	0.0085	-2.165	0.031**
FS	0.0177	0.0063	2.81	0.005***
R-squared	0.738			
Adjusted R-squared	0.619			
Durbin-Watson stat				0.398
Breusch-Pagan Test				0.593
Hausman Test				0.034

Source: Author Computation (2023) *Where DP is Dividend Policy, EM is Earnings management, BS is Board size, BINDP is Board independence, CEOD is CEO Duality, AQ is Audit Quality, LEV is Leverage, and FS is Firm Size*

The coefficient for CEO duality (CEOD) indicates that CEO duality and dividend policy are positively related. When the CEO also serves as the board chair, dividend policy measures are more likely to be increased. This finding is consistent with agency theory, which posits that CEO duality can concentrate power and decision-making authority, potentially resulting in greater dividend payments. Previous investigations, including those by Akuffo and Affum-Osei (2019), have also discovered comparable outcomes. The coefficient for asset quality (AQ) demonstrates a positive correlation between the quality of assets and the policy for dividend distribution. Companies that possess higher asset quality tend to have a stronger dividend policy. This discovery aligns with the principles of the signalling theory, which posits that companies exhibiting robust financial indicators are seen as financially stable and competent in sustaining dividend distributions.

4.4 The Moderating Effect of Corporate Governance Mechanisms on the Relationship between Earnings Management and Dividend Policy

The empirical analysis reveals a positive and statistically significant association between the coefficient of interaction involving board size and earnings management. This study suggests that the relationship between earnings management practices and board size has a more significant influence on dividend policy. Based on the principles of agency theory, it has been posited that boards with a higher number of members may provide improved oversight and governance. Furthermore, when coupled with the practice of earnings management, these bigger boards may possess a better capacity to exercise influence over choices pertaining to dividend policy (Danquah et al., 2019; Donkor et al., 2019). The presence of a positive coefficient indicates that an increase in board size amplifies the influence of earnings management on the determination of dividend policy. Although the coefficient is positive, at conventional levels it is not statistically significant. This suggests that the combined influence of board independence and earnings management on dividend policy is inconsistent. Notably, the p-value is close to the significance threshold, indicating the possibility of a trend. According to agency theory, board independence reduces agency conflicts and improves governance practices, which may influence dividend policy.

Table 4.5 Fixed Effect Estimate

	Dependent variable (Dividend Policy)			
Variables	Coefficient	Std. Error	t-statistics	P-Value
EM	0.0383	0.0152	2.516	0.012**
BS	0.0248	0.0124	2.00	0.046**
BINDP	0.0274	0.012	2.283	0.021**
CEOD	0.0502	0.0211	2.378	0.017**
AQ	0.0186	0.0063	2.952	0.004***

BS*EM	0.0131	0.0034	3.853	<0.001***
BINDP*EM	0.0335	0.0188	1.781	0.075*
CEOD*EM	0.0587	0.0128	4.586	<0.001***
AQ*EM	0.0105	0.0055	1.909	0.058*
LEV	-0.0116	0.0113	-1.027	0.305
FS	0.015	0.0428	0.35	0.727
R-squared	0.669			
Adjusted R-squared	0.537			
Durbin-Watson stat				0.556
Breusch-Pagan Test				0.683
Hausman Test				0.0078

Source: Author Computation (2023) *Where DP is Dividend Policy, EM is Earnings management, BS is Board size, BINDP is Board independence, CEOD is CEO Duality, AQ is Audit Quality, LEV is Leverage, and FS is Firm Size*

The statistical analysis reveals a substantial and positive association between CEO duality (CEOD) and earnings management (EM), as shown by the coefficient for the interaction term. This suggests that when CEO duality coexists with earnings management practices, dividend policy is significantly impacted. CEO duality concentrates power and decision-making authority, which can affect dividend policy choices. The positive coefficient indicates that CEO duality strengthens the effect of earnings management on dividend policy, possibly as a result of centralized decision-making authority. Although the coefficient is positive, at conventional levels it is not statistically significant. This discovery implies that the calibre of assets and the implementation of profit management strategies may have a limited influence on the establishment of dividend policies. The theory of signalling suggests that firms with superior asset quality are perceived as financially secure and capable of maintaining dividend payments (Esmail et al., 2020; Al-Ani et al., 2020; Tran et al., 2020). The positive coefficient suggests that asset quality may enhance the effect of earnings management on dividend policy.

4.5 Robustness Checks

The Earnings Management (EM) coefficient in Model 1 is 0.196 with a standard error of 0.0632. With a p-value of 0.001***, the coefficient is statistically significant with a high degree of confidence. In Model 2, however, the coefficient for EM decreases to 0.0344, has a greater standard error, and is no longer statistically significant. Likewise, in Model 3, the coefficient for EM decreases further to 0.0177 with a smaller standard error, but it remains statistically significant at a high level of confidence. Model (1) coefficient for Leverage (LEV) is -0.0290 with a standard error of 0.0132, indicating a negative relationship between Leverage and Dividend Policy. In Model 2, however, the coefficient becomes positive (0.0367) and the standard error is marginally reduced. With a reduced standard error, the coefficient returns to a negative value (-0.0256) in Model 3. Model (2)'s coefficient is statistically significant at a moderate level of confidence, while Models (1) and (3)' coefficients are statistically significant at a high level of confidence.

Table 4.6 GMM Estimate

	Dependent variable (Dividend Policy)		
Variables	Model (1)	Model (2)	Model (3)
DP_{it-1}	0.063*** (0.019)	0.244*** (0.028)	0.662*** (0.139)
EM	0.196*** (0.0632)	0.0344 (0.1110)	0.0177*** (0.006
LEV	−0.0290** (0.0132)	0.0367** (0.0125)	−0.0256*** (0.0061)
FS	0.0651*** (0.0240)	0.0105* (0.0055)	0.0177*** (0.006)
BS		0.0212*** (0.0073)	.0103** (0.0044)
BINDP		0.0214** (0.0091)	0.0145** (0.0055)
CEOD		0.0411** (0.0251)	0.0383** (0.0146)
AQ		−0.0439** (0.0161	-0.0299** (0.0118)
BS*EM			0.236*** (0.0601)
BINDP*EM			0121*** (0.0034)
CEOD*EM			0.0177*** (0.0063)
AQ*EM			0.0271* (0.0155
Hansen J-Statistic	0.384	0.467	0.319
Sargan Test	0.484	0.296	0.271
AR (1)	0.078	0.382	0.910
AR (2)	0.083	0.566	0.438

Source: Author Computation (2023) *Where DP is Dividend Policy, EM is Earnings management, BS is Board size, BINDP is Board independence, CEOD is CEO Duality, AQ is Audit Quality, LEV is Leverage, and FS is Firm Size*

Model (1)'s coefficient for Firm Size (FS) is 0.0651 with a standard error of 0.0240, indicating a positive relationship between Firm Size and Dividend Policy. In Model (2), however, the coefficient decreases to 0.0105 with a smaller standard error and is only marginally statistically significant. In Model 3, the coefficient is unchanged from Model 2. The significance of the coefficient varies among models, indicating that the relationship between Firm Size and Dividend Policy may be affected by other variables. Board Size (BS), Board Independence (BINDP), CEO Duality (CEOD), and Audit Quality (AQ) coefficients only appear in Models (2) and (3). In both models, the coefficients for BS, BINDP, and CEOD are positive, indicating a positive correlation with Dividend Policy. In both models, the coefficient for AQ is negative, indicating a negative relationship.

Only Model (3) includes interaction terms between EM and other variables, including BSEM, BINDP*EM, CEOD*EM, and AQ*EM. The positive and statistically significant coefficients for BS*EM, BINDP*EM, and CEOD*EM suggest that the interaction between Earnings Management and Board Size, Board Independence, and CEO Duality amplifies the effect on Dividend Policy. AQ*EM's coefficient is positive but not statistically significant, indicating that the interaction between Earnings Management and Audit Quality may not have a substantial effect on Dividend Policy. Hansen J-Statistic and the Sargan Test are utilised to determine the validity of the GMM estimation. In each of the three models, the p-values associated with these tests are greater than the commonly employed significance level of 0.05, indicating that the estimation instruments are valid and the model is well-specified. The AR (1) and AR (2) tests are used to determine whether the error terms exhibit autocorrelation. In all three models, the p-values associated with these analyses are greater than 0.05, indicating that there is no significant autocorrelation

4.6 Chapter Summary

This chapter examines the impact of corporate governance frameworks on the relationship between earnings management and dividend policy. The objective of this research is to investigate the possible relationship between several corporate governance variables, including board size, board independence, CEO duality, and asset quality, and their impact on earnings management. The study aims to analyse how these factors influence decision-making regarding dividend policy. The study findings shed light on the significance of governance elements in the relationship between earnings management and dividend policy.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION

5.0 Introduction

This chapter presents a description of the overall study results. Section 5.1 presents the summary of chapter 1-4. Section 5.2 concludes the study based on the main findings. Section 5.3 presents the implications and recommendations based on the main findings and section 5.4 provide suggestions for further research.

5.1 Summary of Findings

The objective of this research was to examine the moderating role of corporate governance measures on the association between earnings management and dividend policy. The research uses a correlational design and descriptive research approach to collect secondary data from the yearly financial reports of certain enterprises listed on the Ghana Stock Exchange. The sample comprises ten companies from 2010 to 2021. Analysing the data employs various panel estimation techniques, including static and dynamic models. To address endogeneity issues, diagnostic tests, and robustness checks are conducted. The results indicate that the use of earnings management techniques has a favourable impact on the determination of dividend policy choices. In accordance with the principles of agency theory, the investigation further revealed a favourable association between dividend policy and factors such as higher board sizes, board independence, and CEO duality. Furthermore, the correlation between earnings management and higher board sizes and CEO duality enhances the influence of earnings management on dividend policy.

5.2 Conclusion

This study set out to look at how different corporate governance practises affect the relationship between earnings management and dividend policy. The findings suggest that the implementation of profits management strategies significantly influences the determination of dividend policy choices. firms that practise earnings management are more willing to enhance dividend payments, hence fostering a convergence of interests between the firms and their shareholders. However, excessive earnings management may have negative outcomes, such as skewed financial data and a loss of investor trust. The research also highlights the impact of corporate governance measures on dividend policy. According to the principles of agency theory, there exists a positive correlation between dividend policy and certain factors, including a higher board size, board independence, and CEO duality. These tools facilitate the supervision and regulation of corporate activities, perhaps leading to the adoption of more advantageous dividend policies. The correlation between earnings management and higher board sizes or CEO duality exacerbates the influence of these variables on dividend policy.

5.3 Policy Implications and Recommendations

The study's results have led to the identification of many policy implications and subsequent suggestions:

1. Enhancing corporate governance practices: Given the positive relationship between corporate governance mechanisms and dividend policy, policymakers should encourage companies to adopt and strengthen good corporate governance practices. This includes promoting larger board sizes, increasing board independence, and carefully considering

CEO duality. These measures can improve oversight, enhance accountability, and lead to more favourable dividend policies.

2. Monitoring and regulating earnings management: Excessive earnings management practices can distort financial information and erode investor trust. Policymakers should establish robust monitoring and regulatory frameworks to detect and prevent earnings management. This can involve strengthening financial reporting standards, conducting regular audits, and imposing penalties for non-compliance. By ensuring the accuracy and reliability of financial statements, policymakers can enhance investor confidence and support informed dividend policy decisions.
3. Investor education and protection: Policymakers should prioritise investor education and protection to empower shareholders to make informed investment decisions. This includes promoting financial literacy programs, providing transparent information about earnings management risks, and ensuring access to reliable resources for investors to assess companies' dividend policies. By promoting investor awareness and protection, policymakers can mitigate the potential negative impacts of earnings management on dividend policy decisions.
4. Disclosure and transparency: Policymakers should emphasise the importance of disclosure and transparency in financial reporting. Companies should be encouraged to provide clear and comprehensive information about their dividend policies, including the factors influencing their decisions and any potential risks associated with earnings management. Transparent disclosure practices can foster trust, enable better decisionmaking by investors, and facilitate market efficiency.
5. Further research: The study highlights the need for additional research on the interaction between earnings management, board independence, and dividend policy. Policymakers should support and encourage further investigation into this relationship to gain a deeper understanding of how different corporate governance mechanisms

influence dividend policy decisions. This can inform the development of more targeted policies and guidelines to ensure effective governance and dividend practices.

5.4 Suggestions for Further Research

To further our understanding of the relationship between earnings management and dividend policy, future research endeavours may include many avenues of investigation. It is essential to prioritise the investigation of the long-term ramifications of earnings management on dividend policy. Conducting longitudinal analyses can cast light on how past earnings management practices impact dividend decisions and outcomes in subsequent years, thereby shedding light on the sustainability and long-term impact of earnings management on dividend policies. Second, conducting sector-specific research may facilitate the assessment of potential variations in the association between earnings management and dividend policy across different industries. The extent and nature of earnings management practices, as well as their impact on dividend policies, can be influenced by industry characteristics, regulations, and competitive dynamics. Individually analysing sectors would permit the development of tailored policies and guidelines.

In addition, comparative analysis across various countries or regions can provide a comparative perspective on the connection between earnings management and dividend policy. Cultural, legal, and institutional differences between nations influence corporate governance and dividend policies. Comparative studies can identify similarities and differences in the impact of earnings management on dividend policy, thereby contributing to a deeper comprehension of these dynamics. Exploration of potential mediating and moderating factors is another crucial area for future study. How earnings management practices transition into dividend policy decisions may be affected by factors such as firm size, financial leverage, ownership structure, and industry performance. By investigating these variables, we can gain a deeper comprehension of the mechanisms at play and uncover additional insights.

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