ISSN: 2630-7030

# ILORIN JOURNAL OF FINANCE

Volume 3 Number 1 & 2, 2019

# EFFECT OF BOARD CHARACTERISTICS AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM LISTED FIRMS IN NIGERIA

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**Abstract**

*Incessant widespread of corporate financial scandals has been matters of concern among corporate stakeholders. This has been largely attributed to unethical accounting practices across the globe in the last decade. The management's unethical deals have cost the investing public serious financial losses amounting to several billions of naira. This study examines the effect of board characteristics and financial reporting quality of listed manufacturing companies in Nigeria. Ex-post facto research design was used with support of panel data. The population of the study was the totality of one hundred and eighty-four (184) listed firms on the Nigerian Stock Exchange. The sample size was forty-three (43) listed manufacturing companies in Nigeria. The data were collected from secondary source through the annual reports of listed manufacturing firms on the Nigeria Stock Exchange from 2007 to 2017. Descriptive statistics was employed and statistically analysed using multiple regression analysis. Result of the study shows that board expertise had a positive significant effect with financial reporting quality of the listed manufacturing firms in Nigeria ($t = 4.010$, $p < 0.001$) at 5% significance level. The study concluded that board expertise affect financial reporting quality of the listed manufacturing firms in Nigeria. The study therefore recommended that they should increase the proportion of expertise in the board in order to enhance the quality of financial reports.*

**Keywords:** Board independence, Board diversity, Board expertise, Financial Reporting Quality, Listed manufacturing firms, Nigeria.

## 1.0 INTRODUCTION

Unceasing unethical accounting practices and compliance has been a major concern across the globe in the last decennium. In recent years, widespread moral lapses and corporate financial scandals have brought the issue to the forefront. The global debacles on the accounting profession have impeded the confidence of users of accounting information. The fall of the so-called too-big-to-fail firms, evidenced by the collapse of notable firms in the world such as Enron, WorldCom in USA in 2001, Parmalat, Lehman Brothers in 2008, One Tel`s in Australia, Barclay Bank in UK, Polly Peck, Tyco, Cadbury and MTN in Nigeria to mention a few, together with their respective external auditors have raised dusts on the integrity of the profession (Cortese, 2009; Monem, 2011).

The huge and embarrassing corporate failure and high profile frauds in the last two decades have called to question the integrity of the accounting profession

both within and outside the country, leading to increased demands for ethics within the auditing profession. Ever since then, researchers have delved into knowing the main reason for the failures of these big firms, and have attributed it to low ethical standard (Ogbonna & Ebimobowei, 2012; Enofe, Edemenya & Osunbor, 2015; Aifuwa, Embele, & Saidu, 2018).

Consequently, corporate regulators in different countries usually adopt the use of specially designed codes to facilitate the regulation and control of the firms and their behaviours with a view to attaining good corporate governance (Damagum & Chima, 2014). As such, regulatory bodies have been setup in different parts of the world to oversee the practice and the conduct of the auditing and accounting profession. For instance, the International Federation of Accountants (IFAC) has continued to maintain the formulation of auditing guidelines to enhance the reliability and the integrity of corporate financial reporting.

The enactment of corporate governance regulations has placed significant importance on the financial reporting quality. Corporate governance has, therefore, received a considerable attention in the literature. Similarly, the corporate governance systems of modern corporation has been placed under close scrutiny in the last two decades due to global scandals in big global businesses such as Enron, WorldCom in USA in 2001, Parmalat, Lehman Brothers in 2008, One Tel`s in Australia, Barclay Bank in UK, Polly Peck, International News Corporation, Tyco, Cadbury and MTN in Nigeria, among others, in the last two decades (Cortese, 2009; Monem, 2011). Each round of corporate scandals over the years sets off a fresh round of debate and corporate governance enhancements. For instance, the Asian financial crisis in the late 1990s led to the focus on insider trading; Enron and WorldCom scandals brought the role of audit committees and external auditors and board independence into focus; and the collapse of Lehman Brother led to the focus on executive remuneration (Ogechie & Koufopoules, 2010).

Several attributes create good corporate governance, but the most important of them is the Board of Directors (Salleh & Othman, 2016). In fact, at the heart of corporate governance reforms and enhancements is a common interest in the effectiveness of Board of Directors. However, the scandals that have caused the global financial crisis have been blamed on the ineffectiveness of corporate board to discharge its management oversight role. Hence, the corporate board failed to rightly influence the corporate policy decisions, in such areas as voluntary disclosure of information, financing (capital structure) and earning management (Elghuweel, 2015).

Expectedly, a quality financial report should be a product of the effectiveness of an unbiased set of independent directors. However, the alarming rate of poor financial reporting quality cast doubts on this expectation to the extent that investor confidence has been eroded due to the low quality of information made available in corporate reports. Emanating from the problem of director's independence is the issue of board diversity (gender and nationality). Conventional boards are dominated by male directors with little or no preference given to the female directors.

Hofstede (1980) rightly noted that femininity stands for modesty and good quality of life while masculinity seems to focus on material success making male directors vulnerable to manipulation. This is evidenced by the collapse of several companies with male representation on their Board of Directors. The implication of this is that the confidence of the public in companies without female directors is threatened as male directors prefer material

success to quality of financial reports (Hofstede, 1980).

Finally, majority of the directors in the board tend not to have adequate expertise as shown in previous corporate scandals. Expertise such as academic qualifications, professional qualifications, age and experience etc. These problems in the past have drastically reduced the confidence in financial reports by users of such financial information. The implication is that the appointment of financial expert who is not an accounting expert as part of the professional accountant could lead to low quality of financial reporting as he has no understanding and basic knowledge of the content of financial statement, making him less likely to identify any errors or manipulations in the financial statement.

Therefore, this study investigates the effect of board characteristics and financial reporting quality of listed firms in Nigeria. In order to achieve this, the following hypotheses in their null forms were tested.

$Ho_1$: Board independence has no significant influence on financial reporting quality of the listed manufacturing companies in Nigeria.

$Ho_2$: Board diversity does not significantly impact on financial reporting quality of the listed manufacturing companies in Nigeria.

$Ho_3$: Board expertise has no significant impact on financial reporting quality of the listed manufacturing companies in Nigeria.

## 2.0 LITERATURE REVIEW

### Conceptual Review

The phrase "board characteristics" is a blend of two concepts: board and characteristics. The former board of directors (usually referred to as the board) as stated in S.334 (1) of the Companies and Allied Matters Act 2004 (as amended), is vested with the duty of hiring managers and administering the activities of the organization. The latter means a typical or noticeable quality of someone or something. Therefore, board characteristics can be defined as one internal corporate governance mechanism, which expatiates on the features of the board. The characteristics of the board includes size, independence, diligence, diversity (age, gender, nationality, expertise, educational and functional background), and committee structure (Anderson, Mansi, & Reebi, 2004).

The administrative activities of the board involve the duty of overseeing and monitoring the organisation's financial reporting process (Anderson *et al.*, 2004). They meet at scheduled time with the organisation's accountant and external auditors to review financial statements, audit procedures and the internal control system (Klein, 2002), as well as improving the organisation's performance effectively and efficiently. Hermalin and Weisbach (2003) saw boards as market solution that helps mitigate the agency problems that befall most organisations. According to Jenfa (2000), the board is responsible for a company's internal control systems and has the ultimate responsibility for the operation of the company.

Boards define the rules for the Chief Executive Officer regarding hiring, firing, and compensation plan and provide high level advice. Vafeas (2000) saw boards` duty as mainly responsible for monitoring the quality of information contained in financial reports because managers often have their own interest and incentives with regard to managing earnings and potentially misleading stock holders.

Akeju and Babatunde (2017) opined that a board characteristic which is an internal corporate governance mechanism, improves financial reporting quality in an organisation. D'onza and Lamboglia (2014) asserted that a board characteristic is a unique monitoring mechanism for detecting and correcting financial statement fraud. The unique feature of the board makes it difficult

for accountants in an organisation to perpetrate and conceal a financial statement fraud. Cohen, Krishnamoorthy and Wright (2004) argued that one of the most important functions of corporate governance (both internal and external mechanisms) is to ensure the quality of the financial reporting process. This argument was supported by Myring and Shortridge (2010). Ilaboya and Lodikero (2017) reiterated that it is imperative that the board should have some level of integrity and objectivity in the process of carrying out their duties diligently and also be confidential in matters relating to the board. Fathi (2013) asserted that the quality of financial information is positively related to the quality of the board and quality of the ownership structure. This study critically looked at three board characteristics –independence, diversity (gender diversity) and expertise.

The financial statement of any firm is expected to have the required qualitative attributes as stated by international financial reporting standards which include relevance, reliability, comparability and timeliness. The financial statement should always depict the detailed information about the economic performance of firms (in terms of income statement), the statement of financial position, statement of cash flows, and statement of changes in equity (IAS 1). This is to ensure that the information provided is of high quality.

Verdi (2006) defined financial reporting quality as the exact manner in which it shows information as regards a business activity as it relates to its anticipated cash flows, with the aim of informing the shareholders about a company's operation. Financial reporting quality is the degree of which financial statement provides us with information that is fair and authentic about the financial position and performance of an enterprise (Tang, Chen & Zhijun, 2008). It could be deduced from the definitions above that for a financial statement to be regarded as possessing high quality attribute, it must have present authentic/ genuine information about the economic performance, financial position and the activities of the business in relation to its cash flows generation with the main purpose of informing the shareholders and other stakeholders that have relationship/ interest in the financial reporting of the organisation.

Martínez-Ferrero, Garcia-Sanchez, and Cuadrado-Ballesteros (2013) also defined financial reporting quality as the faithfulness of information conveyed in financial reporting process. This definition mainly focused on the financial aspect of an organisation. Financial statements of firms at the end of a financial year should have some element of truth in it. Therefore, it is imperative that the financial reports of firms should be of high quality so as to increase the confidence of the users.

Beest, Braam and Boelens (2009) asserted that financial reporting quality could be assessed directly; it could be measured using accruals model, value relevance models, using specific elements in the annual reports and operationalising the qualitative characteristics. Barth, Landsman and Lang (2008), Schipper and Vincent (2013) and Cohen *et al.* (2004) reiterated that it could be indirectly measured using earnings management, financial restatements and timeliness.

The method of operationalising the qualitative characteristics of financial reports could also be called the International Accounting Standard Board (IASB) qualitative model. Kythreotic (2014) observed that the qualitative characteristics are divided into fundamental characteristics and enhancing characteristics.

The fundamental characteristics are designed to separate the information or non-useful and/or misleading information (Kythreotic, 2014). The enhancing characteristics as defined by IASB (2008)

cannot alone determine the quality of financial reports, so the fundamental characteristics is key to determining the quality of financial reports. The enhancing characteristics are relevance, comparability, timeliness, understandability, faithful representation and verifiability.

Financial statement is relevant when the information in the financial report can assist users in evaluating, correcting and confirming past and current events as well as influencing their economic decisions (Beest *et al.,* 2009). Relevant characteristics mean that the financial statement can influence decisions of users. More so, the information in the financial report must possess the attribute of reliability in order to make it useful for decision-making. Information is said to be reliable when the information is free from material misstatement and biasedness and its neutral, verifiable and faithful representation of the entity (Cheng, Evans &Wright, 2010).

Another attribute of financial report is faithful representations. This means that the financial report should reflect and represent the real economic position of the financial information reported, that is the information must show high level of objectivity and balance. Faithful representation feature asserts that financial statements should present faithfully and economic event devoid of manipulations.

Furthermore, another critical attribute that is required of a financial report is comparability. According to Beest *et al.* (2009), comparability requires that the same or identical situations in two events should be reflected by identical accounting facts and figures while different events should be reflected by different facts and figures in such a way that the information quantitatively reflects the differences in a comparable and easily interpretable manner. Comparability is, therefore, the concept of following users to compare financial statement in order to (assess the economic performance, financial position and cash flows of the firm) allow users to compare financial report across time and among other companies in the same period.

Timeliness enhances the quality of financial reporting as it shows that the information provided must be available to decision makers before it loses its good and powerful influences. It is evaluated as the differences between the year-end and the issuing date of the auditor`s report (Beest *et al.,* 2009). When this is released on time, it should be understandable. For a financial report to be understandable, it must be able to pass across effective information because the better understanding of the information from users, the higher the quality it will possess (Cheng *et al.,* 2010)

**The Theoretical Framework**

This study presents agency theory as a theoretical framework. The agency theory was propounded by Jensen and Meckling in 1976. Since then, it has been a widely used theory in the field of management and social sciences (Ezelibe *et al.,* 2017). This theory explains how the separation of ownership and management in most large companies allow administrators not to assume the financial burdens of their decisions, and also the relationship that exist between them in an organisation. The separation of ownership and control of a company appears as a triggering factor for the problem of agency. From agency point of view, the benefit of robust governance arises from the necessity to reconcile the management's interests with the interests of other key stakeholders in an organisation for the purpose of minimising agency cost and improving effectiveness in financial reporting.

Agency conflict is exacerbated by the problem of information asymmetry and Accounting. Nevertheless, agency theory can contribute to a company's corporate governance mechanisms by providing useful

information to decision makers and thus reducing information asymmetry and the impact of agency conflicts (Lopes, 2008). The theory also states that in the presence of information asymmetry, the agent is likely to pursue his personal interest that may negatively affect the owners of the organisation (Sanda, Mikailu, & Garba, 2005).

The agency theory advanced two main conflicts: How to align the conflicting goals of the principal and the agent, and how to ensure that the performance of the agent is in tandem with the expectations of the manager. The solution to either of these agency problems is to ensure that executives or managers act in the best interest of the owners by increasing the amount and quality of information available to the principals and making senior executives part owners of the firm through their compensations packages (Watts & Zimmerman, 1983). To this end, the features of the executive's managers (board) tend to be of paramount importance in order to avoid these agencies' problems highlighted. Some of their features are size, independence, diversity, diligence, expertise, and so on. These features of the board are assumed to improve the quality of financial reports in an organisation, which will in turn lead to improve the confidence of the stakeholders of the organisation.

## Empirical Review

Alves (2014) looked at the effect of board independence on earnings quality in Portugal using Portuguese listed companies. The study leaned on the Agency theory as the framework for the study. The ordinary least square and two-staged least square were used as the inferential statistics. The study found out that those independent board members and board expertise improved earnings quality by reducing earnings management. The study recommended the strengthening and independence of board as well as board expertise by appointing more independent board members and expertise.

D'onza and Lamboglia (2014) examined the relationship between corporate governance characteristics and financial statement frauds in Italy using logit regression analysis. The research covers a period of 11 years (2001-2011). The research evidence showed a significant positive relationship between corporate governance characteristics and financial reporting fraud in Italian context.

Gois (2014) investigated the financial reporting quality and corporate governance of Portuguese firms of the non-financial companies listed on the Portuguese Stock Exchange and pertaining to the PSI 20 Index, for the period between 2005 and 2009. The data was obtained from annual reports issued by these entities. The study obtained 82 observations, which represented almost the whole universe represented. The number of non-financial companies analysed is 17 and study used the multivariate regression model. The research evidence showed that board composition changes and its degree of independence does not produce any influence on the quality of the accounting information in Portugal.

Kusnadi, Leong, Suwardy, and Wang (2015) examined three characteristics (independence, expertise, and overlapping membership) of audit committees and their impact on the financial reporting quality for Singapore listed companies. The main finding of the study was that financial reporting quality will be higher if audit committees have mixed expertise in accounting, finance and/or supervisory roles. In addition, the study did not find evidence that incremental independence of audit committees enhances financial reporting quality because audit committees already consist of a majority of independent

directors; also, they failed to find any impact of overlapping membership on audit and remuneration committees on financial reporting quality. Based on the result, it was the study recommended that these results have policy implications on improving corporate governance effectiveness in terms of financial reporting quality.

Cook and Glass (2015) examined the effect of ethnic minority board members on firm performance in the United States of America, as defined by corporate governance and product development/ innovation measures. Using panel data analysis with time and firm-level fixed effects, they found a positive relationship between diverse board and effective governance and product development.

Kankanamage (2015) did a study on the relationship between board characteristics and earnings management using Sri Lankan listed firms in India. The ordinary least square was used to examine the effect of board on earnings management for a sample of 160 adjusted discretionary accruals model. The study revealed that board financial expertise had a significant and negative impact on earnings management. Kankanamage (2015) made a submission that board expertise significantly and negatively affect financial reporting quality using earnings management as a measure.

Firoozi, Magnan and Fortin (2016) investigated the effect of board diversity and financial reporting quality using listed Canadian firms from 2008 to 2012. The study used two dimensions of board diversity (geography and gender), while financial reporting quality was measured by the level of abnormal accruals and restatements. The result of the study found that there was no significant relationship between board gender and financial reporting quality. The findings also suggested that firms-specifics effect from board diversity differed and were conditional upon the facet of the diversity being considered.

Andrew, John, Dhaliwal and James (2017) examined whether executive (CEO and CFO) characteristics contribute to financial reporting quality in the United States of America. The study employed Census Bureau as part of the much larger American Community Survey (ACS), which has been performed in every non-census year and involves collecting responses from a sample of the population from each MSA. The results showed that board of independence and board expertise improved financial reporting quality. The results also stated that high-quality employee (executive directors) can improve the firm's financial reporting environment in at least two ways. First, they can provide superior information as inputs to executives' reporting choices. Second, high-quality employees can identify and uncover intentional financial misreporting.

Ciavarella (2017) explores the relationship between board diversity and firm performance across Europe for a sample of companies listed in Italy, France, Germany, Spain and the United Kingdom. The study considered different dimensions of diversity, both demographic (gender, age and nationality diversity) and cognitive or non-observable (diversity in directors' experience and education). The study focused on diversity of both the entire board and its executive members only. The study did not find a significant relationship between firms' performance and board diversity. However, when considering female directors alone, results showed that a firm where female directors are more represented had better performance than others. As for cognitive diversity, results indicated that performance increased when directors had a longer tenure.

José García and Begoña (2018) conducted a study on Boards of Directors with specific references to their composition

and effects on the performance of firms in Spain. The study used sample of all those non-financial companies listed on the Spanish Stock Markets Interconnection System using the period from 2010 to 2015. Tobin's Q and correlation matrix was used for analysis. The findings showed that there was a negative and significant relationship with the board's independence and performance of the firm, while board expertise had a positive significant relationship with performance of the firm. This implies that there was a high degree of compliance with the recommendations of the Good Governance Code, and suggested that the performance of the advisory and monitoring functions were factors that determined the composition of boards.

Mohammad and Philip (2018) conducted an empirical study on the effect of board composition on the informativeness of financial reporting quality in Malaysia from Nigeria Using data on 576 Nigerian firms between 2011 and 2016 to examine the relationship between board composition and financial reporting quality. The study underscored that the independence component of board composition was twofold: non-executive directors, and independent non-executive directors. The study employed multivariate regression. The results found that the proportions of the non-executive directors as well as that of the independent non-executive directors had a negative and significant relation with abnormal accruals. This in turn improved the quality of financial reporting.

Tomislava, Ana and Mirjana (2018) assessed the impact of board gender diversity and size on the performance of the insurance companies in Croatia. The study used data on all insurance companies in Croatia operating between the periods of 2007–2013. The analysis was conducted using dynamic panel model. The result of the findings indicated that gender diversity was negatively influenced by the number of members of the board of directors. Gender diversity at the top positions is not critical for financial success. Specifically, it was established that women acting as presidents of supervisory board deteriorate insurer's performance measured by return on assets (ROA). This is also the case when more women are present in the board of directors. Abu, Okpeh, Arumona and Uchenna (2016) investigated the influence of Board Characteristics on the Financial Performance of listed deposit money banks in Nigeria for the period of 2005-2014. The total number of listed deposit money banks as at 31st December, 2014 was seventeen (17) out of which a sample of fifteen (15) were used for the study. The study categorically examined whether board characteristics (proxy by board independence) had any influence on the performance of listed Deposit Money Banks in Nigeria. The study adopted multiple regression technique as a tool of analysis and data were collected from secondary sources through the annual reports and accounts of the sampled banks. The findings showed that executive director and independent non-executive director had no significant impact on banks' performance in Nigeria.

Onurah and Imene (2016) evaluated the board independence on the level of performance of some selected companies ranging from commodities, brewery, banking, oil and gas and beverages in terms of corporate governance measure indictors on the firm quality of financial reporting in Nigeria. The data were collected from 2006 to 2015. Econometric analysis was conducted and the result of the study found that the correlation among corporate governance indicators of board structure (size and independence), audit quality (audit committee size, the quality of external audit as measured by the presence of an auditor among the big-4), board experience (i.e. experience) and financial reporting quality was 93.47%. However, independent

directors on the board of firm (independence) and audit quality (audit committee size) negatively affected financial reporting quality measured by the discretionary accruals of firm. The study recommended that there should be greater focus on corporate governance indicators so as to bring about global standard financial reporting in the Nigerian emerging market for investment opportunity.

Muhammad, Ayoib and Noor (2016) examined the impact of female directors and financial reporting quality using all listed non-financial companies in Nigeria. The study employed the ordinary least square in analysing the data and adopted McNicholas modified Dechow and Dechiv (2002) model to proxy financial reporting quality. They found that board gender diversity was statistically insignificant but positively associated with the quality of financial reporting. The study recommended a proportional increase of women in the board in addition to regulatory changes. Specifically on gender diversity, the conventional make-up of the board globally did not easily support the linear relationship between gender diversity and financial reporting quality, as the male gender in the boardroom always supersedes the number of their female counterparts (Ilaboya & Lodikero, 2017).

Recently, Akeju and Babatunde (2017) documented that board independence positively and significantly influenced financial reporting quality. However, the indecisive position of the relationship between board independence and financial reporting quality calls for great concern. Akeju and Babatunde (2017) investigated corporate governance and financial reporting quality in Nigeria. The study was done using a sample of 40 companies listed on the Nigeria Stock Exchange (NSE) from 2006 to 2015. The relationship between corporate governance mechanisms (board characteristics, audit committees, board independence, board size and growth) and financial reporting quality was observed. The results of the multiple regression analysis were statistically significant. The findings of the study revealed that corporate governance improved the financial reporting quality in Nigeria.

## 3.0 METHODOLOGY

For this study, ex-post facto research design was used with support of panel data estimation. The population of the study was the totality of one hundred and eighty-four (184) listed firms on the Nigerian Stock Exchange as at 31st Dec, 2017. The sample size was forty-three (43) listed manufacturing companies in Nigeria; only 37 companies was derived for the secondary data (listed manufacturing firms) due to non-availability of data for the period of the study. The data were collected from 2007 to 2017. Descriptive statistics of the variables as well as multiple regression analysis was carried out to assess the relative predictive power of the independent variables of board independence, board diversity and board expertise on the dependent variable which was financial reporting quality.

The model for this study was adopted from Onurah and Imene (2016) with little modification. The model was used to identify the direct association between Corporate Governance Mechanism (both internal and external) –as independent variable which could determine quality of financial reports as approximated by the discretionary accruals as used in extant literature. The model was stated as follows:

$$FRQ_{EM\text{-}it} = \beta_0 + \beta_1 BIND_{it} + \beta_2 BDIV_{it} + \beta_3 BEXP_{it} + \beta_4 AIND_{it} + \beta_5 FSZE_{it} + \varepsilon_{it} \quad \text{.....(iv)}$$

Where:

$FRQ_{EM\text{-}it}$= Financial Reporting Quality as measured using Earnings Management (Discretionary Accruals);

$\beta_0$= Constant;

BIND = Board Independence;
BDIV = Board Diversity;
BEXP = Board Expertise
AIND = Auditors Independence;
FSZE = Firm Size
$\beta_1$, $\beta_2$ $\beta_3$ = Coefficient of explanatory variables
$\varepsilon$ = Standard error
i= Cross sectional (Companies)
t=Time Series
A priori expectations in line with extant literature to be $\beta_1, \beta_2 > 0$, $\beta_3, \beta_4 < 0$

*Table 3.1 Measures of Variables*

| S/N | Variables | Definition | Type | Measurement | Authors |
|---|---|---|---|---|---|
| 1. | $FRQ_{EM}$ | Financial reporting quality | Dependent | Measured by use of accruals quality as a proxy for financial reporting which equals change in current assets - change in cash - change in current liabilities + change in short term debt-depreciation) /scaled by average total assets | Dechow *et al.*, 1995), Kothari*et al.*,(2005) |
| 2. | BIND | Board of Director's independence | Independent | Ratio of non-executive directors to the company's board size | Illaboya & Lodikero (2017) |
| 3. | BDIV | Board diversity | Independent | Percentage of female in the board | Illaboya&Lodikero (2017) |
| 4. | BEXP | Board Expertise | Independent | Use of dummy variable 1 for expert, otherwise 0 An expert in the board must have both educational and professional qualifications with 5 years' experience in financial matters | Kankanamage (2015) |
| 5. | AIND | A measure of auditor's independence | Control | Ratio of audit fee to company's revenue | Ilaboya & Ohiokha (2014) |
| 6. | FSZE | Firm's size | Control | Natural log of company's total non-current assets | Ilaboya&Ohiokha (2014) |

**Source: Author's Computation (2019)**

## 4.0 RESULTS AND DISCUSSION OF FINDINGS

### Results of the Preliminary and Basic Analysis

Table 4.1 *Descriptive Statistics for Secondary data*

| | DA | BIND | BDIV | BEXP | AIND | FSZE |
|---|---|---|---|---|---|---|
| Mean | -0.0586 | 0.6528 | 0.1052 | 0.5784 | 0.0091 | 7.0114 |
| Median | -0.0221 | 0.6667 | 0.1000 | 1.0000 | 0.0014 | 6.9860 |
| Maximum | 2.2543 | 0.8889 | 0.4545 | 1.0000 | 0.1175 | 10.0053 |
| Minimum | -2.7922 | 0.2727 | 0.0000 | 0.0000 | 0.0000 | 5.1715 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Std. Dev. | 0.5795 | 0.1578 | 0.1209 | 0.4952 | 0.0224 | 1.0016 |
| Skewness | -0.7384 | -0.8746 | 1.0693 | -0.3174 | 3.3522 | 0.2747 |
| Kurtosis | 3.5969 | 3.1700 | 3.6248 | 1.1008 | 3.4840 | 2.6427 |
| Jarque-Bera | 882.4184 | 23.8093 | 38.2652 | 30.9116 | 1193.740 | 3.3107 |
| Probability | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1910 |
| Observations | 407 | 407 | 407 | 407 | 407 | 407 |

**Source: Author's Computation (2019)**

Table 4.1 shows a descriptive statistic of variables of the secondary data used in the study. From the listed manufacturing firms investigated the discretionary accruals (DA) which was used to proxy financial reporting quality had a mean value of -0.0586 with minimum and maximum values of -2.7922 and 2.2543 respectively, and the standard deviation of 0.5795 which is high and above the mean, suggesting that discretionary accruals (DA) investigated do not exhibit a considerable clustering around the mean. The mean of board independence (BIND) stood at 0.6528. This implies that an average of about 65% of the directors in the boardroom investigated were independent (non-executive directors). This is also with minimum and maximum values of 0.2727 and 0.8889 respectively, and a standard deviation of 0.1578 which is low. This suggests that board independence (BIND) investigated exhibits a considerable clustering around the mean.

The mean of board diversity (BDIV) stood at 0.1052: This implies that an average of about 11% of directors' present in the boardroom are female, having a minimum and maximum of 0% and 45% of female directors in the boardroom respectively, with a standard deviation of 0.1209, which is high suggests that board diversity (BDIV) do not exhibits a considerable clustering around the mean, and further exposes the unequal distribution of the female directors in the boardroom. Invariably, the mean of board expertise (BEXP) stood at 0.5784 for periods investigated; this implies that about 58% of directors in the board had both professional and educational qualification with five years' experience. With standard deviation of 0.4952 which is suggests that board expertise (BEXP) across periods investigated do exhibits considerable clustering around the mean.

The control variables introduced were auditor's independence (AIND) and firm size (FSZE). From the firms investigated, auditor's independence (AIND) had a mean of 0.0091 with minimum and maximum values of 0.0000 and 0.1175 respectively. The standard deviation stood at 0.0224, which was above the means suggests that board independence (AIND) investigated do not exhibit considerable clustering around the mean. The mean of the firm size (FSZE) investigated stood at 7.0114 (that is about ₦7Billion), having minimum and maximum values of 5.1715 and 10.0053 respectively with a standard deviation of 1.0016 which is low suggests that firm size (FSZE) investigated do exhibit considerable clustering around the mean.

Furthermore, the Skewness and Kurtosis shows whether there is any departure from normality in the series. The Skewness statistics which suggests that our data was positively skewed, and the kurtosis which shows the peakedness of the distribution was mesokurtic in nature. This is in line with Peck, Olsen and Devore (2008) threshold of (-3 to 3) range of determining normality of a distribution using Skewness and Kurtosis. To further strengthen this, the Jarque-Bera statistics, test of normality was statistically significant for all variables at 5% (JB {Prob.}<0.05)

except firm size (FSZE), implying that the series is normally distributed (Studenmund, 2000).

Regression Analysis

Table 4.2 *Regression model*

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 1.0691 | 1.1997 | 0.8912 | 0.3744 |
| BIND | -0.4492 | 1.0496 | -0.4280 | 0.6693 |
| BDIV | 0.5564 | 0.7459 | 0.7460 | 0.4569 |
| BEXP | 0.5116 | 0.1276 | 4.0101 | 0.0001 |
| AIND | -6.2767 | 7.4282 | -0.8450 | 0.3996 |
| FSZE | -0.1614 | 0.1285 | -1.2560 | 0.2112 |
| Effects Specification | | | | |
| Cross-section fixed (dummy variables) | | | | |
| Period fixed (dummy variables) | | | | |
| R-squared | 0.4101 | Mean dependent var | -0.0586 | |
| Adjusted R-squared | 0.2029 | S.D. dependent var | 0.5795 | |
| S.E. of regression | 0.5334 | Akaike info criterion | 1.7922 | |
| Sum squared resid | 39.5416 | Schwarz criterion | 2.5929 | |
| Log likelihood | -119.7759 | Hannan-Quinn criter. | 2.1167 | |
| F-statistic | 1.7380 | Durbin-Watson stat | 1.7793 | |
| Prob(F-statistic) | 0.0079 | | | |

**Source: Author's Computation (2019)**

Based on the result in Table 4.2, the result of hypothesis one shows that board independence was not statistical and significantly related to financial reporting quality which yielded $T$ (1, 184) = -0.45, $\beta_1$ =-31.21, $p$ = 0.6693 at 5% level of significance. The result, therefore, leads to failure to reject the null hypothesis of no significant influence of board independence on financial reporting quality of the listed manufacturing companies in Nigeria. This implies that board independence does not affect financial reporting quality of the listed manufacturing firms.

In relation to hypothesis two table 4.2, shows that board diversity was statistically insignificant related to financial reporting quality which yielded $T$ (1, 184) = 0.750, $\beta_2$ =0.56, $p$ = 0.4569 at 5% level of significance. This implies that board diversity does not affect financial reporting quality of the listed manufacturing firms.

For the hypothesis three, table 3, revealed a positive significant relationship contrast to earlier results, the results shows that Board expertise was statistical and significantly related to financial reporting quality which yielded $T$ (1, 184) = 0.401, $\beta_3$ =0.512, $p$ = 0.0001 at 5% level of significance. The result therefore leads to failure to accept the null hypothesis of no significant impact of board expertise on financial reporting quality of the listed manufacturing companies in Nigeria. This implies that board expertise affect financial

reporting quality of the listed manufacturing firms.

The summary of the statistics also shows a coefficient of determination (R-squared) of 0.4101 implying that over 41% of the systematic variations in dependent variable (financial reporting quality as proxies by discretionary accruals) were explained by the independent variables used in the model, while about 59% were caused by variables not depicted in the model. Similarly, the Adjusted coefficient of determination (Adjusted R-squared) which stood at 0.2029, suggests that over 20% of the systematic variations in dependent variable was explained by the independent variables, while about 80% was caused by variables not included in the model but captured by the standard error of the regression, $S.E$ = 0.5334. The overall F-statistics (goodness-of-fit test) capable of prediction stood at $F$ (1, 184) = 1.74, $p$ =0.0079, this implies that all of the slope coefficients (excluding the constant, or intercept) in the regression are zero and statistically significant at 5%. Also the Durbin-Watson statistic of (1.78) indicates the absence of autocorrelation since the DW statistic is substantially close to (2.00) (Studenmund, 2000).

**Discussion of Findings**

Based on the result shown in Table 4.2, the first objective and hypothesis of the study assess the influence of board independence on financial reporting quality of the listed manufacturing companies in Nigeria. Board independence which had an insignificant effect on financial reporting quality of the listed manufacturing companies in Nigeria as indicated by coefficient of -0.4492, (t = - 0.4280, p-value> 0.6693) showed that there was a negative, insignificant effect between board independence and financial reporting quality at 0.05% level of significance. This result is consistent with the findings of Gois (2014); it however sharply deviates from the findings of Alves (2014), Holtz and Nieto (2014), Akeju and Babatunde (2017). They submitted that board independence is significantly and positively related to financial reporting quality. This indicated that board independence did not provide any effect on financial reporting quality. This implies that board independence does not affect financial reporting quality.

Nevertheless, this study's finding support the assumption of the agency theory that advanced two main conflicts: How to align the conflicting goals of the principal and the agent, and how to ensure that the performance of the agent is in tandem with the expectations of the manager. The solution to either of these agency problems is to ensure that executives or managers act in the best interest of the owners by increasing the amount and quality of information available to the principals and making senior executives part owners of the firm through their compensations' packages. The board's independence is assumed to improve the quality of financial reports in an organisation, which will, in turn, lead to improve the confidence of the stakeholders of the organisation.

The positive effect between board diversity and financial reporting quality predicted in hypothesis two was also confirmed by this study's result as shown by the regression coefficient of 0.5564 of the independent variables (board diversity). The positive relationship between the board diversity and financial reporting quality was also insignificant (t = 0.7460, p > 0.4569) at 0.05 level of significance as indicated in Table 3. Also, similarity was achieved between this study's findings and that of Wang (2015), Firoozi, Magnan and Fortin (2016), and Muhammad, Ayoib and Noor (2016). However, the finding was in contrast with the work of Mohammed and Philip (2018) who reported a significant but

negative relationship to financial reporting quality.

Lastly, board expertise on financial reporting quality of the listed manufacturing firms in Nigeria and from the empirical analysis and hypothesis conducted, the study found that board expertise had a statistical significance which is positively related to financial reporting quality at 0.5 level of significance as indicated by coefficient of 0.5116, (t = 4.010, p-value< 0.001). This revealed the extent at which board expertise in terms of academic qualifications, professional qualifications and experience influenced the quality of financial reporting of the studied firms. This result is in line with the findings of Kankanamage (2015), Ojeka *et al.* (2017), Andrew (2017) and Yohan (2017). They found that board expertise has statistically significant and positively related to financial reporting quality.

## 5.0 CONCLUSION AND RECOMMENDATIONS

Based on the results of the hypotheses tested, the study concluded that board expertise had a significant positive relationship with financial reporting quality of listed manufacturing firms in Nigeria. This implies that the presence of an expert in the board automatically increases the quality of financial reporting of the listed manufacturing firms in Nigeria. Thus, to have a good quality of financial reports, an expert is required. Also, it was concluded that boards are dominated by male directors with little or no preference given to the female directors. To this end, the confidence of the public in companies without female directors is threatened as male directors prefer material success to quality of financial reports.

Based on the findings in this study, the study recommended that non-executive director in the board of an organisation should be reduced so as to reduce management cost; moreover, regulatory authorities should look into the ratio of male to female in the boardroom. The inequality in the boardroom could affect financial reporting quality in the long run; finally, they should increase the proportion of expertise in the board in order to enhance the quality of financial reports of the listed manufacturing firms in Nigeria.

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