

CORPORATE GOVERNANCE MECHANISMS AND FINANCIAL REPORTING IN NIGERIA

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Abstract

The focus of the study is to examine the relationship between corporate governance and financial reporting quality in listed manufacturing firms in Nigeria. The study adopts a longitudinal research design. The sample consist of 31 listed manufacturing firms and secondary data covering the period from 2010-2018 was used for the study. Secondary data retrieved from annual reports of the sampled companies was used for the study. The Ordinary Least square regression technique was used for the estimation. The findings of the study reveals that reporting quality and statistically significant, (ii) the effect of board composition on financial reporting quality is negative statistically significant, (iii) the effect of board gender diversity (BGD) on financial reporting quality is negative statistically significant (iv) the effect of managerial (MOWN) on financial reporting quality is negative and statistically significant (v) the effect of Institutional Ownership is positive on financial reporting quality and statistically significant (vi) Foreign ownership (FOROWN) has a positive impact though not statistically significant. Consequently, the study recommends that though there is yet no consensus regarding what number constitutes an optimal board size, there is the need for companies irrespective of their stage to ensure that the boards are constituted in such a way as to reflect critical stakeholder concerns which can result in more effective monitoring to improve on financial reporting quality. Also, the study recommends the need

to strengthen board independence. Thirdly, the study recommends the need for companies to ensure that their audit committee's co comprised of financial literate member and that corporate monitoring by the audit committees should also be enhanced.

Introduction

The basic objective of financial reporting is to provide information about an enterprise that is useful to a wide range of users in making economic decisions. However, the validity of this objective is being questioned by several scholars (Yeh and Chou 2014; Dabor & Adeyemi 2009; Domash 2002) because of the probable effects of earnings management practices by management of companies on information contents of such reports. Hence financial reporting quality is a growing issue of concern, threatening the credibility of both the accounting and auditing functions (Onodugo et al, 2019; Kalu et al, 2014). Noronha and Zeng (2008) notes that attempts at distorting financial reporting quality can be seen as a continuum of purposeful interventions in the external financial reporting process, from legitimate activities to fraud violating Generally Accepted Accounting Principles (GAAP), with the intention of misleading some stakeholders about the underlying economics and performance of the company.

The need to control the wide-spread challenge of ensuring financial reporting quality in the corporate circles has seen issues of corporate governance surfacing very strongly in the corporate arena. Consequently, corporate governance and financial reporting quality has attracted a good deal of public interest because of its apparent importance for the economic health of corporations and society in general. The Organisation for Economic Cooperation and Development (OECD, 1999) defines corporate governance as the system by which

business corporations are directed and controlled. Although, corporate governance can be defined in a variety of ways, generally, it involves the mechanisms by which a business enterprise organized in a limited corporate form is directed and controlled. It usually concerns mechanism by which corporate managers are held accountable for corporate conduct and performance. Cohen, Krishnamoorthy & Wright, (2007) notes the importance of various corporate governance structures and the extent to which these structures have either individually or collectively influenced the attainment of financial reporting quality that are free from material misstatements and misrepresentations.

Particularly, the study examines the following corporate governance variables in examines empirically how they may influence financial reporting quality. First there is the effect of the board size. The corporate governance literature also suggests that small corporate boards are more effective monitors than large boards because they hold a high level of membership coordination, less communication difficulties and a lower incidence of dangerous free-rider problems. It is indicated that board size and its other features (e.g., membership structure) seem to be significant elements in deciding the effectiveness of corporate organization (Lin and Lee, 2003). However, in relation to whether a large or small board size will be effective in ensuring financial reporting quality is still a theoretically unsettled issue and hence the need for empirical investigation (Onodugo et al, 2017). Secondly, in relation to board independence, literature documents that it is supposed to provide a defence against the manipulative behaviour by the controlling shareholders and directors (Mallin, 2007; Onodugo et al, 2014). Outside directors are found to be more assertive in confronting board decisions and can thus behave as a counterweight to inside directors (Mallin, 2007). Moreover, they can bring in expertise and external knowledge to the firm, and more significantly, that resource

dependence role allows them to furnish advice and resources in aiding the firm to succeed (Hillman & Dalziel, 2003; Anowor, Ukwueni and Ikeme, 2013; Yoshikawa and McGuire, 2008). However, in relation to whether the board independence will be effective or not in improving financial reporting quality and to what degree effect of board independence. Thirdly, the effect of board gender diversity on financial reporting quality. Though the gender presence in most corporate boards is still very low, there is still a growing debate regarding their impact on several organisational outcomes including corporate reporting quality. Fourthly, the effect of audit committee size on financial reporting quality is also an interesting focus for this study. The audit committee is part of the monitoring mechanisms and has very direct responsibility for financial reporting quality (Anowor and Nwanji, 2018).

Consequently, the focus of the study is to empirically examine the relationship between corporate governance and financial reporting quality using listed manufacturing companies in Nigeria.

Literature Review

Financial Reporting Quality

Jonas and Blanchet (2000) described the two general perspectives widely used in assessing the quality of financial reporting. The first perspective is based on the needs of users. Under this perspective, financial reporting quality is determined relative to the usefulness of the financial information to the users of the information. This approach adopts the objective of General-Purpose Financial Reporting which is to provide information to users that is useful for making and evaluating decisions about the allocation of scarce users" (CPA Australia 2006). The second perspective of financial reporting quality is focused on the notion of shareholder/investor protection. This perspective defines quality financial reporting as full and transparent financial information that is not designed to obfuscate or mislead users (Jonas and Blanchet 2000). There is a fundamental distinction between these two perspectives of financial reporting quality.

The user needs perspective is mainly concerned with providing relevant information to users for making decisions, whereas the shareholder/investor protection perspective aims to ensure the information provided to users is sufficient for their needs, transparent and competent (Jonas and Blanchet 2000). Healey and Wahlen, (1999) notes that financial reporting quality is undetermined when managers use judgments in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying performance of the company or to influence contractual outcomes that depend on reported accounting numbers.

The Healy Model

Healy (1985) was the first to introduce a model that measures the use of discretionary accruals. Concerning the use of earnings management Healy (1985) tests by the comparison of the mean total accruals (scaled by lagged total assets) with the earnings management partitioning variable (Dechow et al. 1995, Healy, 1985). Dechow et al. (1995) argues that this study is different from most other earnings management studies due to the fact that it predicts that systematic earnings management occurs in every period. The earnings management partitioning variable under this approach divides the sample into three groups of companies (Dechow et al., 1995). The first group contains companies which are predicted to manage their earnings upwards and the two other groups contain companies that are predicted to manage their earnings downwards (Healy, 1985, Dechow et al., 1995). Following the division into groups, Healy (1985) compares the mean total accruals of the group of companies that predicted to manage their earnings upwards to each of the two groups of companies that predicted to manage their earnings downwards (Dechow et al., 1995, Healy, 1985). Then, the group which is predicted to show upward managed earnings is treated as the estimation period and the other two groups are treated as the event period. Healy

(1985) argues that the number of discretionary accruals is basically the mean of total accruals over an estimation period prior to the event period (Dechow et al. 1995).

The DeAngelo Model

DeAngelo (1986) introduces another model to estimate nondiscretionary accruals, which can be viewed as a special case of the Healy model (Dechow et al. 1995). The DeAngelo (1986) model is based on an assumption that no systematic earnings management exists during the first year. First year total accruals are used as an estimation of non-discretionary accruals. DeAngelo (1986) tests for earnings management by “computing first differences in total accruals, and by assuming that the first differences have an expected value of zero under the null hypothesis of no earnings management” (Dechow et al, 1995, p.198). This model uses the last period’s total accruals scaled by lagged total assets, as a measure of non-discretionary accruals (Dechow et al. 1995).

Corporate Governance

According to Anandarajah (2004) there is no universally agreed definition for what the term corporate governance means, numerous definitions have evolved owing to the multi-dimensional nature of the concept. Consequently, Anandarajah (2004) views the concept of corporate governance as a means holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

The Code of Corporate Governance issued by Central Bank of Nigeria (2003) defines the subject of corporate governance as “a system by which corporations are governed and controlled with a view to increasing

shareholder value and meeting the expectations of the other stakeholders.”

The Organization for Economic Cooperation and Development (OECD, 1999) also defines corporate governance as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing so, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance. The Asian Development Bank (ADB, 2000) defined corporate governance as the manner in which power is exercised in the management of a country's social and economic resources for development.

Corporate Governance Mechanisms

(i) Board Size

In organization theory, a larger number of people working in an organization will make their work easier because it can be allocated to more people and thus result in work specialization. A larger sized board will increase the possibility of having more experts with various expertise. However, increasing the number of people in the organization might slow down the decision-making process because there will be more opinions to consider. Also, more people in an organization lead to free rider problems. Vafeas (2000) found that companies that had the smallest number of board members (in this case 5 people) was considered more informative by market participants, so that its financial statements had higher information content. The number of board members could affect the effectiveness of the board performance. Anderson et al. (2004) also found that board size was negatively associated with the cost of debt, suggesting that a larger board provided better monitoring

of the financial reporting process. However, Anderson et al. (2003) found no significant effect of board size on earnings response coefficients.

(ii). Board Independence

An independent board will be able to perform independent oversight functions more effectively, including the monitoring of financial statements quality. Beasley (1996) found that the presence of independent directors in the board reduced the probability of fraud in financial statements. When more outside directors are members of boards of directors, investors and shareholders consider more inserted information in financial reporting more reliable and consider less the possibility to manipulate earnings or its distortion through accrual items management.

According to Alzoubi and Selamat (2012), a board comprising non-executive directors had responsibility to control and monitor management, thus, helped in reducing agency cost and improved financial reporting quality (Fama & Jensen, 1983). Moreover, independent directors do not seek self-interests and control managerial activities (Williamson, 1988). Likewise, they strengthen the firm's earnings quality in terms of earnings predictability and earnings persistency. Bitu and Bazaz (2010), Rahnamaye, Heibati, Taleb and Nabavi (2012) showed that there was a meaningful relation between the ratio of outside board members and earnings management. Nikumaram, Mohammad and Salteh (2009) and Mashayekhi (2011) hypothesized about the existence of a meaningful relationship between the ratio of outside board members and accrual items quality not confirmed. Also in results of Mashayekhi's research in 2011, no meaningful relationship was observed between the ratio of outside board members and earnings stability and also earnings forecast ability.

(iii). Board Gender Diversity

Females are becoming increasingly represented on boards. Researchers have recently found evidence of increased female board participation. For instance, in the US in 2012, women held only 16.6% of board seats among Fortune 500 companies, compared with 16.1%, 15.7%, 15.2%, 15.2% and 14.8% in 2011, 2010, 2009, 2008 and 2007, respectively (Catalyst, 2012, 2011, 2010, 2009, 2008 and 2007). Abdullahi (2015) wrote that the women directors' representative in Nigerian cement firms had a negative but an insignificant effect on the earnings management behaviour of those firms. On the other hand, Tijjani and Dabor (2010) found that the composition of women directors on the board had a negative relationship with earnings management and a positive relationship with firm performance but had no significant impact.

(iv). Audit Committee

Audit committee oversees the financial reporting process (DeZoort & Hermanson, 2002). The role of the audit committee is certifying the quality of financial reporting and contributing to minimizing earnings manipulations. The audit committee is a vital component of corporate governance structures to promote accountability and transparency by high quality financial statements. However, Beasley (1996) that the existence of audit committees does not significantly affect the likelihood of financial statement fraud. Peasnell, Peter and Young (1999) also found that the existence of an audit committee did not have a significant effect on earnings management. Even though the results were still mixed, the role of an effective audit committee could have an effect on the quality of financial reporting. Dhaliwal et al. (2007) suggested three characteristics that determined the governance strength of the audit committee, i.e., the audit committee size, independence and meeting frequency.

(v). Managerial Ownership

The agency problem arises at the point of separating ownership from management, as their interests often time are conflicting and the managers who run the business activities may likely favor their own interests over that of the shareholders. Managerial ownership is basically a situation where a manager is also a shareholder by reason of the units of shares acquired or earned, as the case may be. Bigger and Hoang (2008) defined managerial ownership as the percentage of total firm's shares owned by a manager or group of managers who have discretion over reported earnings. High share ownership would make managers have greater responsibilities in managing the company and presenting the financial statements with the correct information for the benefit of shareholders and themselves.

(vi). Institutional Ownership

Institutional ownership has to do with having part of the ownership rights of a firm being held by other firms or organization. Institutional investors have the opportunity, resources and ability to monitor, discipline and influence a manager's decision in the firm (Monks and Minow, 1995). Institutional investors are generally thought to have better access to timely information and to be capable of accurate analysis. Thus, institutional investors are more capable of detecting earnings management than individual investors. Also, institutional investors usually hold a larger number of shares than individual investors.

Previous studies suggest that a high level of institutional ownership can play a crucial role on corporate governance mechanism (Alves, 2011). Bitu Mashayekhi (2008) argued that institutional share ownership may have implications for earnings management as they are able to influence the company's management; while some argue that institutional investors do not play an active role in monitoring management activities (Porter 1992), arguing that institutional

owners are overly focused on short-term financial results, and as such, they are unable to monitor management, while on the other hand, this could put pressure on the managers to try and meet short term earnings expectations.

(vii). Foreign Ownership

Foreign ownership involves foreign mutual funds or foreign institutional investors; Seasholes (2000) argues that these foreign investors ought to have better performance as a result of their being exposed to expertise and talent. Foreign investors play a prominent role in improving firm-level governance for non-U.S. corporations, as they can promote the corporate governance of local firms through either direct monitoring by using their voting rights to influence managerial decisions or indirect monitoring by threatening to divest their investments in local firms (Aggarwal et al., 2011). As explained by Kho et al. (2009) its efficiency lies in the fact that foreign investors from “good governance” countries are found to have an advantage when serving as monitors in “poor governance” countries. However, several literatures argues that foreign institutions have information disadvantage relative to their local counterparts, stating that local institutions can monitor firms better than foreign institution as Coval and Moskowitz (2001) asserts that local investors firm can visit the firm’s operations, talk to its suppliers and employees, and assess the local market conditions in which the firm operates in better than foreign investors.

Studies from Developing Economies

Al-sufy, Almbaideen, Al-abbadi and Makhlof (2013) carried out a study to examine the impact of governance on the quality of Accounting Information, through a field study on industrial firms listed in Amman Financial Market. Primary and Secondary sources of data was utilized for the study. Questionnaires were administered to a study population numbering 50 industrial companies. Regression analysis was also

utilized in analyzing the data sets. Findings from the study revealed that there is an effective implementation of the principles of corporate governance and it invariably affects the quality of financial reporting.

Chalaki, Didar and Riahinezhed (2012) carried out a study to investigate the effect of corporate governance attributes on financial reporting quality in firms listed in Tehran Stock Exchange (TSE) in Iran during the period of 2003 to 2011. In the study McNichols (2002) and Collins and Kothari (1989) are used for financial reporting quality measurement purpose, and institutional ownership, ownership concentration, board independence and board size is considered as corporate governance attributes. Multiple regression analysis was utilized for the purpose of the study. The results from the study showed that there is no relationship between corporate governance attributes including board size, board independence, ownership concentration, institutional ownership and financial reporting quality. In addition, no evidence is found to support significant relationship between control variables (audit size, firm size and firm age) and financial reporting quality.

Guo and Ma (2015) conduct an intensive investigation into the determination of ownership characteristics in earnings management behaviors for Chinese domestic listed firms. The sample used contains 1,176 firms with 7,937 firm year observations reported from 2004 – 2010, The majority of data are obtained from the China Stock Market and Accounting Research Database (CSMAR) created by the GTA Information Technology Company and the University of Hong Kong. Other sources include series of Shanghai Stock Exchange Statistical Annuals, Shenzhen Stock Exchange Fact Books, and from firms’ annual reports available from the firms’ homepages. Their findings evidence the presence of a positive impact of managerial ownership on earnings management which is as a result of the entrenchment effect.

Studies conducted in Nigeria

Samaila (2014) in a study examined the impact of corporate governance on the financial reporting quality of listed oil marketing companies in Nigeria over the period 2000-2011. The study utilized documentary data collected from annual reports and accounts of the companies for the period under investigation. Multiple regression is adopted to examine the model of the study. Longitudinal panel data is used to account for individual heterogeneity of the sample companies. Two steps regression is used in determining the quality of financial reports of the Nigerian listed oil marketing firms adopting modified Dechow and Dichev's (2002) model. Findings from the study revealed that majority of the companies for most of the years have separate CEOs and Chairmen of their board. Furthermore, while audit committee composition and audit committee meetings have significant negative effects on the quality of financial reporting, board independence, board meetings and managerial shareholdings are found to have positive effects. From the control variable, age is found to be strongly and positively related to the quality of earnings.

Hassan (2013) carried out a study to examine monitoring characteristics and financial reporting quality of the Nigerian listed manufacturing firms. Financial reporting quality is represented with earnings management using the modified Dechow and Dichev's (2002) model. Using 32 firms-years longitudinal paneled of 160 observations, panel OLS is estimated and controlled for fixed/random effects. The result from the study showed a significant positive relationship between monitoring characteristics and financial reporting quality. Leverage, independent directors, audit committee, institutional, block and managerial shareholdings are all significant implying monitoring characteristics is influencing financial reporting quality of quoted manufacturing firms in Nigeria.

Imeokparia, (2013) carried out a study to explore the intricacies of corporate governance and financial reporting quality issues in the banking industry. A total of 133 copies of questionnaires were distributed. The respondents consist of regulatory institution, bank employees and bank customers. The data collected were presented in frequency, tables and analysed using Statistical Package for Social Sciences. Findings from the study revealed that the relatively stronger Nigerian banking industry is faced with diverse ethical issues despite the reformative consolidation exercise and although codes and standards guiding sound governance and ethical reporting have gone a long way in salvaging the banking profession.

Agency theory

According to Habbash (2010) agency theory is the most popular and has received greater attention from academics and practitioners. The agency theory is based on the principal-agent relationships. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. In modern corporations the shareholders (principals) are widely dispersed and they are not normally involved in the day-to-day operations and management of their companies rather they hire managers (agent) to manage the corporation on behalf of them (Habbash, 2010). The agents are appointed to manage the day-to-day operations of the corporation. The separation of ownership and controlling rights results conflicts of interest between agent and principal. To solve this problem or to align the conflicting interests of managers and owners the company incurs controlling costs including incentives given for managers.

Methodology

Research Philosophy and Design

The study employs a longitudinal research design. A longitudinal design involves repeated observations of the same variables

over long periods of time unlike the cross-sectional design which examines variables at a point in time. As a result, they can establish sequences of events. The choice of the design is because the nature of the variables especially the data for the study involves repeated observations of the same variables over periods. Hence the design is suitable for this study.

Population

The population of the study comprises of all manufacturing companies quoted on the floor of the Nigerian Stock Exchange. As at December 2019, there are about 46 manufacturing companies quoted on the stock exchange (NSE, Fact Book, 2019) and this will also form the population for the study.

Sample and Sampling Technique

For a heterogeneous population, the statistical formula of determining sample size was used to determine the sample size with 5% being used as the limit of tolerable error. The sample size according to Okeke (1995: 25) can be determined by using Taro Yamani formular which states that:

$$n = N / 1 + N (e)^2$$

n = Sample Size
 N = Population of the study
 e = Co-efficient of confidence or margin of error

Therefore, using $n = N / 1 + N (e)^2$
 $n = 46 / 1 + 46(0.05)^2$
 $n = 46 / 1 + 46(0.0025)$
 $n = 46 / 1 + 0.505$
 $n = 46 / 1.505$
 Therefore, n = 31 companies.

Sources of Data

Secondary data will be used for this study. The data will be retrieved from corporate annual reports of the sampled quoted companies on the Nigerian Stock Exchange for the period 2010-2018 financial years. The researcher will utilize only corporate annual reports because they are readily available, accessible and also provide a greater potential for comparability of results.

Model Specification

The model specification of this study will be adopted from the Modified Jones Model by Dechow, Sloan and Sweeney (1996), used to calculate the discretionary accruals (DAC) which is a proxy for financial reporting quality. This will be specified as follow:

$$\frac{TA_{it}}{TA_{i,t-1}} = \beta_0 + \beta_1 \left(\frac{\Delta Rev}{TA_{i,t-1}} - \frac{\Delta Rec_{it}}{TA_{i,t-1}} \right) + \beta_2 \left(\frac{PPE_{it}}{TA_{i,t-1}} \right) + \varepsilon_{it} \quad \dots\dots\dots(1)$$

Where, $TA_{ci,t}$ = Total Accruals, calculated as firm i's income before extraordinary items and discontinued operations, minus cash flows from continuing operations plus extraordinary items and discontinued operations in year t;

$TA_{si,t-1}$ = Total Assets for firm i in year t - 1;

ΔRev = Change in net revenue for firm i from year t - 1 to t;

$\Delta Rec_{i,t}$ = Change in accounts receivable for firm i from year t - 1 to t;

$PPE_{i,t}$ = Gross property plant and equipment

The functional specification of the relationship between corporate governance and financial reporting quality is thus specified below;

$$FRQ = f(BDS, BDIND, AUDCS, BDGD) \text{ ----}$$

(ii)

Specifying the econometric form and adding firm size control variable, we have;

$$FRQ_{it} = \lambda_0 + \lambda_1 BDS_{it} + \lambda_2 BDIND_{it} + \lambda_3 AUDCS_{it} + \lambda_4 BDGD_{it} + \lambda_5 FOWN_{it} + \lambda_6 MOWN_{it} + \lambda_7 IOWN_{it} + \lambda_8 FSIZE_{it} + u_{it} \text{ ----}$$

----(iii)

Where;

FRQ_{it} = Financial Reporting Quality Measured by Discretionary Accrual

BDS = Board size is measured as the number of individuals' on the board

BDIND = Board independence is measured as the ratio of independent directors on the board

AUDCS= Audit committee size measured as the number of individuals on the audit committee

BDGD= Board gender diversity measured as female-male ratio on the board.

BDGD= Board gender diversity measured as female-male ratio on the board.

MOWN= Managerial ownership measured as ratio of managerial to total shareholding

FOWN= Foreign ownership measured as the ratio of foreign to total shareholding

IOWN= Institutional ownership measured as the ratio of foreign to total shareholding

FSIZE= Firm size measured as log of total assets used as control variable

i =ith firm

t = time period

ε_t = Stochastic term.

discretionary accruals and corporate governance variables. It is observed that discretionary accruals is negatively correlated with BDS($r=-0.02$) but positively correlated with BDCOMP($r=0.076$), MANOWN($r=0.06$), BGD($r=0.085$), IOWN($r=0.186$) and FOWN($r=0.07$). The correlations are all largely weak with the highest being Institutional ownership with 18.6%. However, it suffices to note that correlations are limited in terms of inferential abilities and that is because they do not necessarily imply functional causality in a strict sense.

Corporate Governance and Financial Reporting Quality Regression

In this section, the study begins by first conducting the regression estimations to show the effect of corporate governance on financial reporting quality. As part of the estimation preliminary test, the seasonal decomposition test was conducted for the accrual series to examine the presence and persistence of seasonal effects in the data as this may tend to bias the estimates when it exists significantly. The result suggests the presence of seasonality effects. Consequently, the study then adjusts the baseline accrual series for seasonal variations.

Table 4.3 show the regression results examining the impact of corporate governance on earnings management. The white adjusted standard errors was employed to control for potential heteroskedasticity in the estimation and hence the estimation results are free from heteroskedasticity while the Cochrane Orcutt autoregressive (AR) procedure was employed to correct for serial correlations where it is detected. The Hausman test statistic with p -value = 0.038, indicates that the FE is the preferred model to the random effects indicating the presence of correlations between the errors and the explanatory variables which is the key assumption of the fixed effects (Hausman, 1998). Both panel period heteroskedasticity

Table 4.2: Pearson Correlations Results

	B D S	BDC OMP	MO WN	BG D	IO W N	FO WN	FSI ZE	Acc rual
BDS	1							
BDC OMP	0. 04	1						
MO WN	- 0. 33	0.07 4	1					
BGD	0. 27	0.08 7	0.01 9	1				
IOW N	0. 09	0.30 5	- 0.12 1	- 0.0 6	1			
FOWN	0. 07	0.15 3	- 0.43	0.0 13	0.2 75	1		
FSIZE	0. 49	0.02 6	- 0.05 6	0.1 85	0.1 02	- 0.0 6	1	
ACCR UAL	- 0. 02	0.07 6	0.06	0.0 85	0.1 86	0.0 7	0. 01	1

Table 4.2 presents the correlation results and as observed, particularly, the study is concerned with the correlations between earnings management as measured by

and cross-sectional heteroskedasticity test confirm that the estimations were found to be free from such. The Peseran cross-dependence test was employed to confirm the threat of the serial correlation in the errors and the statistic reveals the absence of cross-section dependence in the residuals. The R^2 using discretionary accruals baseline data for earnings management is 36.24% with the F-stat of 3.994 (p-value = 0.00) which is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model. The analysis of coefficients reveals size of the board (BDS) has a positive (0.1342) effect on financial reporting quality and statistically significant at 10% ($p=0.0619$), the effect of board composition (BDCOMP) is statistically significant at 5% ($p=0.000$) though with a negative coefficient (-0.0962). Board Gender diversity (BGD) has a positive effect (0.1034) on financial reporting quality and also statistically significant ($p=0.007$) at 5%. Managerial ownership (MOWN) has a negative impact (-0.0672) impact on financial reporting quality which is statistically significant ($p=0.018$) at 5%. Foreign ownership (FOWN) has a positive impact (0.0256) impact on financial reporting quality though not statistically significant ($p=0.1427$) at 5%. Institutional Ownership (IOWN) has a display a positive effect (0.0256) on financial reporting quality which is statistically significant ($p=0.0823$) at 5%.

The R^2 using seasonality adjusted accruals data for financial reporting quality is 63% with the F-stat of 4.505 (p-value = 0.00) which is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. The analysis of coefficients reveals size of the board (BDS) has a positive effect (0.0062) on financial reporting quality and statistically significant at 5% ($p=0.0159$). Board Composition (BDCOMP) exerts a negative impact (-

0.1381) on financial reporting quality which is also statistically significant at 5% ($p=0.000$). Board Gender diversity (BGD) has a positive effect (0.1025) on financial reporting quality which is also statistically significant ($p=0.0092$) at 5%. Board ownership (BDOWN) has a negative impact (-0.1047) impact on financial reporting quality and statistically significant ($p=0.000$) at 5%. Foreign ownership (FOROWN) has a positive impact (0.0227) impact though not statistically significant ($p=0.1864$) at 5%. Institutional Ownership (IOWN) has a positive impact (0.1077) impact on financial reporting quality and statistically significant ($p=0.009$) at 5%. Looking at the control variables, FSIZE IS significant at 5%.

The regression diagnostics is presented in the table above and the Breush-Goffery LM test for serial correlation test for the presence of stochastic dependence between the errors across time and as can be observed, the probability value of the F-stat (0.5435) confirms that the null hypothesis of no serial correlation in the residuals is accepted at 5% level. The white test for Heteroskedasticity also shows that the p-value (0.578) of the F-stat (0.369) confirms that the null hypothesis of homoscedastic errors is accepted at 5% level and finally, the Ramsey specification test also confirms that the appropriateness of the functional specification of the model.

Board size and financial reporting quality

From table 4.3, the analysis reveals that board size (BDS) has a positive (0.1342) effect on financial reporting quality and statistically significant at 10% ($p=0.0619$). Board size has been shown to be a significant part of the ability of boards to effectively monitor management and to work efficiently together to oversee the running of the business (Persons, 2006), Board size is viewed as another important element in board characteristics that may have an effect on financial reporting quality (Musyoka, 2015). Whilst some studies propose, that a large

board size is efficient in monitoring the activities of managers, stating that the larger the board size, the lower the level of financial reporting quality (Musyoka, 2015; Peasnell, Pope, & Young, 2005; Dalton et al., 1999; Yu, 2008), others argue that the larger the size of the board, the lower the monitoring from the board. When the board size is larger, it is more difficult for the board members to communicate efficiently with one another. Hence, function of the board is weaker when there are more members in the board (Kao and Chen, 2004). Nonetheless, the study finding in this regard are in tandem with Salihu and Jibril (2015) using Nigerian quoted firms, Mehmet, Suleyman and Mustafa (2014) using Turkish quoted firms, Kankanamage (2015) for firms in Sri Lanka, Younis, Hashmi, Khalid and Nasir (2016) using manufacturing firms listed on Karachi Stock Exchange. In addition, the findings are also supported by those of Kao and Chen (2004) for all firms listed in the Taiwan stock exchange. On the contrary, the study findings are at variance with Obigbemi, Omolehinwa, Mukoro, Ben-Caleb and Olusanmi (2016) for Nigerian companies, Habbash (2013) using firms in Saudi Arabia and Musyoka (2015) using companies listed at the Nairobi Securities Exchange.

Board Composition and financial reporting quality

The total effect of board composition on financial reporting quality was seen in table 4.3 is negative (-0.1381) statistically significant at 5% ($p=0.000$) and this implies that increases in the level of board composition will constrain or reduce financial reporting quality. According to Park and Shin (2004), independent directors are considered to enhance the monitoring activities of a company since they are believed to be less biased and have fewer ties to the company. A considerable number of studies have showed concern on association between board independence and reduced levels of financial reporting quality (Idris et al., 2018; Kao and Chen, 2004, Musyoka,

2015). Our finding in this regard is in tandem with those of Kankanamage (2015) for quoted firm in Sri Lanka, Obigbemi et al. (2016) in Nigerian companies, Enofe, Iyafekhe, and Eniola (2017) for quoted non-financial firms in Nigeria, Musyoka (2015) for listed firms at the Nairobi Securities Exchange, Idris, Abu Siam and Nassir (2018) for industrial companies indexed on Amman stock exchange and Kao and Chen (2004) for Indian firms. However, the finding is at variance with those Chelogoi (2017) for listed firms at Nairobi securities exchange and Yang, Chun and Ramadili (2009) Malaysian listed firms. Consequently, the null hypothesis that Board composition has no significant influence on financial reporting quality in Nigeria is rejected.

Managerial ownership and financial reporting quality

The total effect of managerial (MOWN) on financial reporting quality is negative (-0.1047) and statistically significant ($p=0.000$) at 5%. This implies that increases in managerial or board ownership has a significant constraining effect financial reporting quality. Literature has shown that a firm's ownership structure is an important factor that limits financial reporting quality (Warfield, Wild and Wild 1995). The finding of the study is in tandem with You, Tsai, and Lin (2003) for Taiwan stock exchange, Alves (2012) for Portuguese firms, Ali, Salleh, and Hassan, (2010) for Malaysian listed firms, Saftiana, Mukhataruddin & Ferina (2017) for Indonesia Stock Exchange (IDX). Studies with results highlighting a positive effect includes those of Ayadi and Boujelbene (2014) for French companies, Mehmet, Suleyman and Mustafa (2014) for Turkish firms, Guo and Ma (2015) for Chinese domestic listed firms, Teshima and Shuto (2008) for Japanese firms, though some studies found no significant relationship such as Spinos (2013) for U.S.

Institutional ownership and financial reporting quality

The effect of Institutional Ownership (INSTOWN) has a positive impact (0.1077) on financial reporting quality and statistically significant ($p=0.009$) at 5%. Previous studies suggest that a high level of institutional ownership can play a crucial role on corporate governance mechanism (Alves, 2011). The finding is in tandem with Latif, Latif and Abdullah (2017) for Pakistan, but in contrast to Ajay and Madhumathi (2016) for India, Mehmet et al. (2014) for Turkish firms, Koh (2003) for Australian quoted firms, Alves (2012) for French non-financial firms. A number of studies found non-significant results such as Yang, Chun and Ramadili (2009) for Malaysian listed firms and Guo and Ma (2015) for Chinese domestic listed firms. Consequently, the null hypothesis that Institutional ownership has no significant influence on financial reporting quality in Nigeria is rejected.

Foreign ownership and financial reporting quality

The effect of Foreign ownership (FOROWN) has a positive impact (0.0227) impact though not statistically significant ($p=0.1864$) at 5%. The finding is in tandem with Guo and Ma (2015) for Chinese domestic listed firms, though at variance with those of Gill-de-Albornoz and Rusanescu (2017) for US, Guo, Huang, Zhang and Zhuo (2015) for Japanese quoted firms, Enofe et al. (2017) Nigerian non-financial firms and Ahmed and Iwasaki (2015) for Japanese firms. Consequently, the null hypothesis that foreign ownership has no significant influence on financial reporting quality over quoted firms' life cycle in Nigeria is rejected.

Summary of Findings

- i. The analysis reveals that board size (BDS) has a positive effect on financial reporting quality and statistically significant.
- ii. The effect of board composition on financial reporting quality is negative statistically significant.

- iii. The effect of board gender diversity (BGD) on financial reporting quality is negative statistically significant.
- iv. The effect of managerial (MOWN) on financial reporting quality is negative and statistically significant.
- v. The effect of Institutional Ownership is positive on financial reporting quality and statistically significant.
- vi. Foreign ownership (FOROWN) has a positive impact though not statistically significant.

Conclusion

Financial reporting quality is a growing issue of concern, threatening the credibility of both the accounting and auditing functions and has been at the centre of corporate reporting research for the past two and a half decades. The need for financial reporting quality has been underpinned from the agency theory perspective and one approach through which the firm can address these opportunistic tendencies of management leading to financial reporting quality behaviour is for the firm to incur essential monitoring cost and improve corporate board monitoring through good corporate governance. Consequently, corporate governance has attracted a great deal of public interest or concern because of its apparent good sides in preventing shareholders' wealth expropriation and the monitoring of managerial maleficence. As noted earlier, the role of corporate governance in improving financial reporting quality, providing frontline corporate monitoring, and aligning shareholders' interest with management strategy will continue to be an important research and policy issue for the foreseeable future. Investigating the effect of corporate governance on financial reporting quality is the focus of this research. The findings of the study reveals that (i) board size (BDS) has a positive effect on financial reporting quality and statistically significant, (ii) the effect of board composition on financial reporting

quality is negative statistically significant, (iii) the effect of board gender diversity (BGD) on financial reporting quality is negative statistically significant (iv) the effect of managerial (MOWN) on financial reporting quality is negative and statistically significant (v) the effect of Institutional Ownership is positive on financial reporting quality and statistically significant (vi) Foreign ownership (FOROWN) has a positive impact though not statistically significant.

Recommendations

Firstly, based on our findings, the estimations confirm significance of the board size variable. Consequently, the study recommends that though there is yet no consensus regarding what number constitutes an optimal board size, there is the need for companies to ensure that the boards are constituted in such a way as to reflect critical stakeholder concerns which can result in more effective monitoring

Secondly, based on the study findings, the effect of board composition on financial reporting quality is negative statistically significant at 5%. Consequently, the study recommends the need to strengthen board independence.

Thirdly, based on the study findings, the total effect of board gender diversity (BGD) on financial reporting quality is negative and statistically significant at 5%. Though the effectiveness of gender-diverse boards is still quite debatable, the study nevertheless recommends that firms look critically at enhancing the gender-diversity of their boards as a way to strengthen the board monitoring process.

Fourthly, based on the study findings, the effect of managerial ownership on financial reporting quality is negative and statistically significant at 5%. Consequently, the study recommends that firms regulate board ownership to levels that can stimulate mutual

monitoring and reduce entrenchment which predisposes managers to EM.

Fifth, based on the study finding, the effect of institutional ownership on financial reporting quality is positive and significant. Consequently, the study recommends that institutional owners need to be more involved in firm monitoring and this can be more effective if such investors think long term rather than short term.

Sixth, based on the study findings, the effect of foreign ownership on financial reporting quality is positive and significant. Consequently, the study recommends that also the foreign owners and investors also become more involved in corporate monitoring across the life cycle.

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