

**CORPORATE GOVERNANCE AND FINANCIAL REPORTING  
QUALITY IN NON-FINANCIAL FIRMS IN NIGERIA**

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**BEING A RESEARCH PROJECT WRITTEN AND SUBMITTED TO THE  
DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT  
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PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD  
OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN ACCOUNTING.**

**MAY, 2024**

## **DECLARATION**

I, UMUNNA Kaosisorchukwu declare that:

1. This research is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin city, under the supervision of Dr. (Miss.) O. T. ASHAFOKE of the Department of Accounting, Faculty of Management Science, University of Benin, Benin City, Nigeria.
2. This work has not been submitted for the award of any degree elsewhere.
3. All ideas and views are products of my personal research and where the views of others have been expressed, they have been duly acknowledged.
4. I shall be totally, wholly, and fully responsible for the liability that may flow from this study, if any.

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## CERTIFICATION

We certify that this project was carried out by Umunna kaosisorchukwu in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria and it is considered adequate in scope and quality in partial fulfillment of the requirements for the award of B.Sc. Accounting degree.

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## **DEDICATION**

This work is dedicated to GOD Almighty the Giver of knowledge, He has been the one that has brought me this far, for it was not by my power but for his grace and mercies that has kept me.

## **ACKNOWLEDGEMENTS**

I wish to express my profound gratitude to God Almighty who is the source of my strength and inspiration throughout this project.

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I am grateful to my parents Mr and Mrs Umunna for their support morally, financially and prayers towards the success of my education. My appreciation also goes to my siblings, Tobeckukwu, Emelie and friends, blessing, Isioma, Sandra, Joseph, Deji and Victor for their support and encouragement which cannot be easily forgotten. God bless you all, Amen.

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## ABSTRACT

*This study seek to examine the relationship between corporate governance and financial reporting quality of selected listed non-financial firms in the Nigerian exchange group (NGX), the focus was on the non-financial sector which comprises of consumer goods, healthcare, and industrial goods firms. .The study regressed the dependent variable – Financial Reporting Quality on the Independent variables – Board Gender Diversity, Board Size, Board Independence and Ownership Concentration.*

*A sample of twenty-nine (29) listed non-financial firms from the period of 2018– 2023 were examined using descriptive statistics, correlation analysis and regression techniques were used to analyze the data in order to achieve the research objectives.*

*This study employed the Ordinary Least Square Method and the empirical results revealed that there is a positive significant linear relationship between the Board independence, Board gender diversity and ownership concentration with Financial reporting quality, while the study also revealed that board size has a negative significant effect on financial reporting quality.*

*The study recommends amongst others that management should assess the trade-offs between having a larger board with diverse expertise and a smaller board with more efficient decision-making. Also, they should consider potential downsizing efforts to streamline board operations and improve financial reporting quality and managers should ensure that concentrated ownership does not lead to excessive influence or conflicts of interest that could compromise financial reporting quality.*

**Keywords:** *Board independence, board gender diversity, board size, ownership concentration, financial performance, and financial reporting quality*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to Study

Financial statements serve as a crucial communication channel through which companies report their financial performance and position to market participants, such as investors, creditors, and analysts (Beyer et al., 2010). These stakeholders rely heavily on the accuracy and transparency of the information contained in financial statements to make informed decisions about resource allocation and investment opportunities. Financial reporting quality (FRQ), as defined by Biddle et al. (2009), measures the extent to which an entity's financial statements transparently convey information about its operating performance, financial condition, and anticipated cash flows. High-quality financial reporting is essential for promoting economic growth, as it reduces information asymmetry, lowers capital costs, and enhances the efficient allocation of resources (Gomariz & Ballesta, 2014). Since financial reporting quality influences economic decisions that can ultimately impact society as a whole, it is of utmost importance not only to potential stakeholders but also to the broader public (Gerged et al., 2020). Consequently, ensuring high standards of financial reporting quality is a matter of paramount importance for companies, regulators, and policymakers alike, as it contributes to the overall stability, transparency, and efficiency of the capital markets and the broader economy (Leuz & Wysocki, 2016).

However, despite the far-reaching societal implications of accurate financial reporting, stakeholders' trust in the reliability of financial statements has been undermined in the wake of corporate scandals and accounting irregularities (Cohen et al., 2004).

The 2018 conceptual framework makes it very evident that the goal of financial reporting is to give users access to financial data that helps them make decisions. Information in the financial reports must be accurately stated, pertinent, comprehensible, comparative, timely, and verifiable in order for choices to be considered genuine. The International Accounting Standards Board (IASB, 2013) states that decisions on the organization's resource allocation can be made with the support of high-quality financial reporting. It is emphasized that a company's capacity to obtain outside funding and maintain appropriate responsibility is solely dependent on the caliber of its financial reporting (Chan-Jane et al., 2015). Decisions about the entity's prospects for future net cash inflows and management's stewardship of its financial resources are made by users of the financial information (IFRS, 2020). Therefore, financial reporting quality (FRQ) concerns all stakeholders, including lenders, suppliers, and shareholders, globally.

Corporate governance has emerged as a critical area of focus in the modern business landscape, particularly in the wake of high-profile corporate scandals and financial crises that have underscored the consequences of poor governance and compromised financial reporting quality (Rezaee, 2009). According to

PricewaterhouseCoopers' (PwC) Global Economic Crime and Fraud Survey (2018), a staggering 49% of organizations reported that they had experienced fraud or economic crime. This alarming statistic emphasizes the need for robust governance mechanisms and transparent financial reporting practices to safeguard against fraud, misstatements, and other financial irregularities.

Corporate scandals have become a common and recurring issue. Take a look at the US Enron scandal and comparable corporate collapses throughout Europe. For a period of four years, Enron's profits were exaggerated by up to \$586 million (Healy & Palepu, 2003). Operating costs totaling 3.8 billion dollars were capitalized in the WorldCom fraud case in 2002, inflating the company's earnings (Sidak, 2003). The Cadbury (Nige) PLC affair in Nigeria continues to serve as a model for false financial reporting. Lever Brothers (Nig) Plc and Afribank Plc are two more Nigerian companies that have engaged in fake financial reporting (Ajayi 2006). Also in 2019, the Securities and Exchange Commission (SEC) found that Hertz Global Holdings Inc. had grossly misrepresented its pre-tax income by \$235 million in its financial reports, leading to significant penalties and restatements (SEC, 2019).

The financial system of any country, as well as the victim organizations, suffer greatly from fraudulent financial reporting. According to Burnaby et al. (2011), the consequences include financial loss and harm to the victim organization's reputation. Weak corporate governance structures and inadequate oversight mechanisms can have

a detrimental impact on the quality of financial reporting (Bédard & Gendron, 2010). Poor board composition, lack of independence among board members, ineffective internal control systems, and insufficient monitoring of management's actions can create an environment conducive to financial misreporting and accounting irregularities (Alkebsee & Habib, 2021). Ineffective corporate governance practices can lead to a breakdown in accountability, transparency, and ethical conduct, ultimately compromising the reliability and integrity of financial statements (Al-Shaer & Zaman, 2021). Furthermore, lack of robust governance frameworks can enable management to engage in opportunistic behaviour, such as earnings management or selective disclosure, further undermining the quality and usefulness of financial information (Rani et al., 2021). Conversely, strong corporate governance practices, characterized by effective board oversight, independent auditing, and robust internal controls, have been found to enhance the quality of financial reporting and reduce the likelihood of financial misstatements (Agyei-Mensah, 2019; Kamolsakulvong et al., 2022). Therefore, establishing and maintaining rigorous corporate governance mechanisms is crucial for ensuring high-quality financial reporting and fostering stakeholder confidence in the accuracy and transparency of financial disclosures (Armstrong et al., 2010).

In conclusion, the quality of financial reporting plays a pivotal role in promoting transparency, efficiency, and stability in capital markets and the broader

economy (Beyer et al., 2010). High-quality financial statements are essential for stakeholders to make informed decisions regarding resource allocation and investment opportunities. However, corporate scandals and accounting irregularities have undermined stakeholders' trust in the reliability of financial statements, highlighting the need for robust corporate governance mechanisms (Cohen et al., 2004). Recognizing the far-reaching implications of high-quality financial reporting and the pivotal role of corporate governance in achieving it, companies, regulators, and policymakers must prioritize the establishment and maintenance of rigorous governance frameworks to safeguard the interests of stakeholders and promote overall economic stability and growth.

## **1.2 Statement of the Research Problem**

The statement of research problem stems from the ongoing debate and evolving dynamics surrounding corporate governance practices and their impact on the quality of financial reporting. While substantial research has been conducted in this area, there remain significant gaps and inconsistencies in the existing literature, particularly in the context of emerging markets and the rapidly changing business landscape.

One of the key research gaps is the lack of consensus on the specific corporate governance mechanisms that are most effective in enhancing financial reporting quality. While some studies (such as Ibrahim & Jehu, 2018; Phuong & Hung, 2020)

have focused on the role of board composition, others have emphasized the importance of audit committee characteristics or ownership structures (Cohen et al., 2004; Krishnan & Visvanathan, 2008). Ibrahim and Jehu (2018) concluded that the presence of non-executive directors and independent non-executive directors is significantly and inversely associated with abnormal accruals, while Phuong and Hung (2020) highlighted that the size of the Board of Directors (BOD), the independence of the BOD, and having the BOD chairperson also serving as CEO positively influence financial reporting quality (FRQ). Conversely, a higher frequency of BOD meetings is associated with a negative impact on FRQ. Furthermore, better audit quality and a higher ratio of liabilities are positively correlated with FRQ, whereas larger company size is linked to lower FRQ. Also, Cohen et al., 2004 suggested that audit committee expertise is positively related to financial reporting quality. Due to the seemingly conflicting results, the relative impact and interplay of these various governance mechanisms remain unclear, and there is a need for a more comprehensive and integrated approach to understanding their collective influence on financial reporting quality.

Additionally, bulk of the research of (Chalaki et al., 2012; Habib & Jiang, 2015; Agyei-Mensah, 2018; Bako, 2018; Alzeban, 2020) on corporate governance and its effect on financial reporting quality used multiple regression to analyse the data on the corporate governance mechanisms and their resultant effect on financial reporting

quality. However, this study will apply a different approach by employing the use of panel regression to examine the effect of the corporate governance mechanisms on financial reporting quality of non-financial firms in Nigeria.

Against this backdrop, this study intend to investigate the impact of corporate governance practices on financial reporting quality of non-financial firms in Nigeria.

### **1.3 Research Questions**

This study is motivated to answer the following questions;

1. What is the effect of board gender diversity on the financial reporting quality of non-financial firms in Nigeria?
2. What is the effect of board size on the financial reporting quality of non-financial firms in Nigeria?
3. What is the effect of board independence on the financial reporting quality of non-financial firms in Nigeria?
4. What is the effect of ownership concentration on the financial reporting quality of non-financial firms in Nigeria?

### **1.4 Objectives of the Study**

The broad objective of this study is to examine the impact of corporate governance on the financial reporting quality of non-financial firms in Nigeria. The specific objectives are to:

1. examine the effect of board gender diversity on the financial reporting quality of non-financial firms in Nigeria;
2. ascertain the effect of board size on the financial reporting quality of non-financial firms in Nigeria;
3. assess the effect of board independence on the financial reporting quality of non-financial firms in Nigeria; and
4. examine the effect of ownership concentration on the financial reporting quality of non-financial firms in Nigeria.

### **1.5 Research Hypotheses**

The research hypotheses are stated in the null form. These hypotheses are formulated in line with the specific objectives as follows:

1. There is no significant relationship between board gender diversity and financial reporting quality of non-financial firms in Nigeria.
2. There is no significant relationship between board size and financial reporting quality of non-financial firms in Nigeria.
3. There is no significant relationship between board independence and financial reporting quality of non-financial firms in Nigeria.
4. There is no significant relationship between ownership concentration and financial reporting quality of non-financial firms in Nigeria.

## 1.6 Scope of the Study

The study basically seeks to examine the relationship between corporate governance and financial reporting quality in non-financial firms in Nigeria. The study will focus on non-financial firms listed on the Nigerian Exchange Group (NGX) as at 31st December, 2023. The non-financial firms under review comprises of consumer goods, healthcare, and industrial goods firms. The total population under the non-financial sector as a whole is 107 of which consumer goods, healthcare, and industrial goods are 21,7, and 13 respectively making the total population of non-financial firms under study to be 41. Taro Yamane formula was used to derive a sample size of 29 non-financial firms which was used for the study;

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n = the sample size

N = the finite population

e = the level of significance or limit of tolerable error

1 = unit or a constant

By applying the Taro Yamane formula for determining sample size,

$$n = \frac{41}{1 + 41 (0.1)^2}$$

$$n = \frac{41}{1.41}$$

$$n = 29.07$$

The choices of these sectors are based on the level of corporate governance of firms in the sectors and on the availability of data on the corporate governance mechanisms used to measure the effects of corporate governance on the financial reporting quality of the firms. The study is designed to cover the period 2018-2023. The choice of this timeframe is due to the fact that between 2018 and 2023, Nigeria witnessed significant regulatory updates and corporate governance reforms, such as the implementation of the Nigerian Code of Corporate Governance (NCCG) 2018, which aimed at enhancing business integrity and shareholder engagement. Additionally, the Financial Reporting Council of Nigeria (FRCN) undertook efforts to align with global financial reporting standards, emphasizing transparency and accountability in financial disclosures during this period.

### **1.7 Significance of the Study**

The findings of this study hold significant implications for a wide range of stakeholders, including investors, policymakers, regulatory bodies, and governments, as high-quality financial reporting plays a crucial role in promoting transparency,

accountability, and efficient resource allocation in capital markets. The significance of this study to the different stakeholders are explained below;

**Investors:**

For investors, both individual and institutional, the findings of this study will provide valuable insights into the corporate governance practices that promote reliable and transparent financial reporting. By understanding the specific governance mechanisms that enhance financial reporting quality, investors can make more informed decisions about where to allocate their capital, potentially reducing investment risks and enhancing returns. Furthermore, improved financial reporting quality can foster greater investor confidence, thereby facilitating capital formation and economic growth.

**Policymakers and regulatory bodies:**

Policymakers and regulatory bodies will also benefit significantly from this study's findings. As they strive to develop and implement effective corporate governance frameworks and financial reporting standards, the insights gained from this research can inform evidence-based policymaking. By identifying the governance practices that contribute to high-quality financial reporting, policymakers can tailor regulations and guidelines to strengthen these practices, ultimately promoting greater transparency and accountability in financial markets.

**Governments:**

Governments, particularly in emerging nations, can leverage the study's findings to develop and promote corporate governance practices that support sustainable economic development. Robust financial reporting and disclosure practices can attract foreign investment, enhance market integrity, and foster public trust in the financial system. By implementing governance measures that improve financial reporting quality, governments can create an environment conducive to long-term economic growth and stability.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Preamble**

This chapter covers a review of related literature on the subject matter. It is structured into three major parts, covering conceptual reviews of corporate governance and financial reporting quality, review of relevant theories related to corporate governance and financial reporting quality, and review of prior empirical studies.

#### **2.1 Conceptual Framework**

##### **2.1.1 Financial Reporting**

Financial reporting is the process of presenting information about an organization's financial performance and position to users. It is often viewed as precise and factual, attested to by independent auditors confirming its validity (Kantudu & Atabs, 2007). Financial reporting involves creating statements reflecting an entity's results and transactions over a period (Anumaka, 2010). It expresses the operational performance in financial terms, reflecting the economic exercise of fiduciary obligation.

Financial reporting covers providing information about a firm's financial condition, performance, and risk profile to potential users (Crockett, 1996). It focuses

on general-purpose financial statements like the balance sheet, income statement, and cash flow statement, along with footnote disclosures. The preparation and presentation of these financial reports for internal and external users is the financial reporting process.

Accounting is the process of identifying, measuring, and communicating socio-economic information to enable informed judgments and decisions by users (Glautier and Underdown, 1978). Financial statements are the principal means of communicating financial information outside an enterprise (Kieso and Weygandt, 1980). They are formal records expected to comply with regulatory and professional requirements.

While all accounting information is available to management, much financial information is also distributed externally to investors, creditors, analysts, unions, the public, and even competitors. Publicly owned corporations are legally required to make their financial information public, with laws ensuring the provided information is reliable and complete (Meigs et al., 1996).

#### **2.1.1.1 The Objectives**

According to the International Financial Reporting Standards (IFRS) issued in 2007, the primary goal of financial statements is to provide useful financial

information about an entity's financial position, performance, and changes in financial position to a wide range of users to aid in their economic decision-making processes.

Fundamentally, the provision of financial information centers around the disclosures contained within the financial statements. It is vital to examine the concept of disclosure in relation to this research work. For reporting to be properly channeled, there must be a determination of who the intended recipients of the report are and what types of information should be examined by independent public accountants.

Various authors have also attempted to define disclosure. Kieso and Weygant (1980) argued that the full disclosure principle requires presenting sufficient information to allow knowledgeable readers to reach an informed decision rather than having to guess. Chetkovich (1955) stated that disclosure is the tangible measure of the adequacy of the descriptive and supplemental information provided in the financial statements.

From this, we can conclude that accounting information designed solely to satisfy shareholders' needs is not credible enough unless it also considers the needs of other stakeholder groups.

To achieve the aforementioned objectives, there is a need for qualified financial accounting standards to ensure financial reports are prepared in a manner that fulfills those objectives.

### **2.1.1.2 Statutory framework of financial reporting in Nigeria**

This encompasses all standards and related interpretations published by the International Accounting Standards Board (IASB), along with the Corrupt Practices and Other Related Offences Act of 2001, the Economic and Financial Crimes Commission Act of 2002, and several Nigerian laws. These laws include the Nigerian Stock Exchange Act of 1961, the Institute of Chartered Accountants of Nigeria Act of 1988, the Companies and Allied Matters Act (2020 as amended), the Banks and Other Financial Institutions Act (1991), the Association of National Accountants of Nigeria Act (1993), the Investment and Securities Act (1999), and the Securities and Exchange Commission Rules and Regulations (1999).

### **2.1.1.3 Disclosure requirement under CAMA (1990) as amended**

The Companies and Allied Matters Act of 2020 (as amended) serves as the primary law regulating the operations of companies in Nigeria. CAMA 2020 specifies the information that must be disclosed in the financial statements of Nigerian companies. Sections 378(1-3) of CAMA 2020 outline the minimum disclosures required in the balance sheet, profit and loss account (income statement), notes to the accounts, auditor's report, director's report, statement of source and application of funds, and a five-year financial summary.

#### **2.1.1.4 Disclosure requirement under BOFIA (1991)**

The Banks and Other Financial Institutions Act of 1990, as amended, outlines specific information and statements that must be disclosed in the financial reports of banks and other financial institutions operating in Nigeria. Sections 24 through 29 of the Act stipulate the minimum disclosure requirements, mandating the publication of annual reports and accounts, balance sheets, profit and loss accounts, auditors' reports, and directors' reports. The provisions cover maintaining proper books of account, publishing annual financial statements, directors' reports, auditors' reports, as well as the required contents and formats of the accounts.

#### **2.1.1.5 International financial reporting standards**

The International Financial Reporting Standards (IFRS) establish the foundation for preparing general purpose financial statements to ensure comparability both within an entity's financial statements across different periods and with the financial statements of other entities. IFRS sets out the overall requirements for financial statement presentation, guidelines for structure, and minimum content requirements. Fundamentally, entities whose financial statements conform to IFRS must make an explicit and unqualified statement of such compliance in the notes. An entity cannot describe its financial statements as IFRS compliant unless they adhere to all IFRS requirements. Applying IFRS, with additional disclosures when necessary, is

presumed to result in financial statements that achieve fair presentation. When preparing financial statements, management must assess the entity's ability to continue as a going concern (IASB, 2010).

#### **2.1.1.6 Measures of Financial Reporting Quality**

The Financial Accounting Standards Board's statement (FASB, 1980) serves as a guide for developing accounting standards and choosing procedures, emphasizing relevance and reliability as the primary desirable qualities of useful accounting information, while also noting verifiability, neutrality, conservatism, comparability, consistency, understandability, cost/benefit and materiality. According to the IASB conceptual framework (2021), the qualitative characteristics of financial reporting are divided into fundamental and enhancing characteristics.

#### **Fundamental Qualitative Characteristics:**

1. **Relevance:** Relevance is a crucial fundamental qualitative characteristic of financial reporting. As defined by the Financial Accounting Standards Board (FASB, 1990), information is relevant if it can influence the economic decisions of users by helping them evaluate past, present, or future events, or by confirming or correcting their past evaluations. Glautier and Underdown (2001) emphasize that relevant information must have both predictive value, enabling users to make predictions about future outcomes, and confirmatory

value, allowing users to confirm or correct their previous expectations. Relevant information is essential for users to make informed decisions and assessments (Ramos, 2008).

2. **Faithful Representation:** Faithful representation, also known as reliability, is another fundamental qualitative characteristic. Financial information should faithfully represent the economic phenomena it purports to represent, meaning it should be complete, neutral, and free from material errors or bias (Glautier & Underdown, 2001). Reliable information should provide a faithful depiction of the underlying economic reality, be free from manipulation or distortion, and be trustworthy for decision-making purposes (Erika, 2010). The FASB (1990) additionally emphasizes completeness as a key aspect of reliability, ensuring that all necessary information is disclosed.

### **Enhancing Qualitative Characteristics:**

1. **Comparability:** Comparability is an enhancing qualitative characteristic that enables users to identify and understand similarities and differences between financial information reported by different entities or the same entity across different periods (Udu, 2009). Consistent application of accounting principles, policies, and procedures ensures that financial information is comparable over time and across different entities, facilitating meaningful analysis and decision-

making (Glautier & Underdown, 2001). Comparability allows users to identify trends, evaluate performance, and make informed comparisons (Ramos, 2008).

2. **Verifiability:** Verifiability refers to the ability of different knowledgeable and independent observers to reach a consensus that the information faithfully represents the economic phenomena it purports to represent (Glautier & Underdown, 2001). Verifiable information ensures that the measurement methods and assumptions used in preparing the financial statements are transparent, objective, and free from bias, allowing for independent verification and validation (Erika, 2010). Verifiability enhances the credibility and reliability of financial information (Udu, 2009).
3. **Timeliness:** Timeliness is an enhancing qualitative characteristic that ensures financial information is available to decision-makers before it loses its capacity to influence their decisions (Glautier & Underdown, 2001). Timely reporting ensures that users can access and utilize the information while it is still relevant and capable of influencing their economic decisions (Ramos, 2008). Delays in reporting can diminish the usefulness of financial information, making timeliness a critical aspect of quality reporting (Erika, 2010).
4. **Understandability:** Financial information should be presented in a clear and concise manner, making it comprehensible to users who have a reasonable

knowledge of business and economic activities, and who are willing to study the information with reasonable diligence (Glautier & Underdown, 2001). Understandability enhances the decision usefulness of financial information by ensuring that it is interpreted consistently by different users (Ramos, 2008). Accountants must simplify complex accounting concepts and present information in a user-friendly format with clear explanations (Erika, 2010).

5. **Materiality:** Materiality is an enhancing qualitative characteristic that ensures that financial information includes all material items and disclosures that are necessary for users to understand the entity's financial position, performance, and cash flows (FASB, 1990). Information is considered material if its omission or misstatement could reasonably be expected to influence the economic decisions of users (Glautier & Underdown, 2001). Materiality ensures that financial statements focus on significant and relevant information, avoiding clutter and enabling users to make informed judgments (Udu, 2009).

### **2.1.2 Corporate Governance**

The term “corporate governance” derives from an analogy between the government of cities, nations or states and the governance of corporations. Although the issue it addresses has been around for much longer, the term "Corporate Governance" is a relatively recent idea. The focus of corporate governance is on all

matters relating to the values and guidelines that direct the behavior of various important stakeholders in the administration of the organization toward the accomplishment of its vision, mission, goals, and objectives. Hart (1995) suggests that "corporate governance issues arise in an organization whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organization – these might be owners, managers, workers, or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract (p. 678)". Corporate governance is the process by which organizations are managed to ensure that they act responsibly and in accordance with the interests of their stakeholders (Clarke, 1993).

The numerous definitions of corporate governance given by different authors seem to share, explicitly or implicitly, some common elements. They all refer to the existence of conflicts of interests between insiders and outsiders, with an emphasis on those arising from the separation of ownership and control (Jensen & Meckling, 1976) over the partition of wealth generated by a company. A degree of consensus also exists regarding an acknowledgement that such corporate governance problems cannot be satisfactorily resolved by complete contracting because of significant uncertainty, information asymmetries, and contracting costs in the relationship between capital providers and insiders (Hart, 1995). There is a need to resolve this resulting conflict, and the way organizations try to resolve this conflict is often seen in the way the

organization defines the nature and characteristics of the organization's corporate governance.

According to McNutt (2010), the term "governance" has historically been used to refer to collective action, the enforcement of contracts, and the preservation of property rights in both economics and law. In actuality, governance is related to how individuals work within organizations. Through the use of organizations, it is possible to achieve goals that are out of a person's reach (Scott, 2003). However, for organizations to succeed in their goals, good governance is necessary.

Although incorporation was promoted as a strategy to minimize liability in the nineteenth century (Vinten, 2001), the idea of corporate governance was first utilized and discussed more frequently in the 1980s (Parker, 1996) than it was at that time (Vinten, 2001). Adams (2002) believes that any debate of corporate governance should actually begin with the formation of the registered business. The UK's Joint Stock Companies Act of 1844 encouraged the incorporation of businesses. Control and ownership have been separated as a result of the growth of contemporary organizations. Due to the fact that professional managers now controlled the operations of the company, the ownership of the company was no longer in control (Kiel & Nicholson, 2003). As a result, corporate governance frameworks were required to shield business owners from the activities of qualified management. In

reality, the Limited Liability Act 1855 (UK) was created to shield investors against debt that exceeded their initial investment.

Francis (2000) asserts that the 1980s saw an increase in the popularity of corporate governance because of the global stock market collapses of the time and the failure of certain firms as a result of subpar governance methods. According to the United Nations (1999), the main reason for changing corporate governance standards was corporate collapse. In the 1980s, there was a shift in mentality as more corporate organizations around the world went out of business and management boards of companies were held to far higher standards of performance. Additionally, boards are responsible for ensuring that businesses are operated efficiently and in the appropriate way, while managers are responsible for running businesses (Adams, 2002). Managers do not always make effective directors, because the skill sets required by managers and directors are distinct.

The acceptance of corporate governance ideas was prompted by more than just the need to avoid company collapse. Positively, there has been a rising understanding that better corporate governance is essential for the expansion and improvement of a nation's entire economy (Clarke, 2004). Other studies (Kiel & Nicholson, 2002) found a direct correlation between corporate performance and the governance policies of their boards. Furthermore, a 2003 study in the United States by Gompers et al. established a direct link between greater shareholder performance and sound corporate

governance methods. Additionally, the study found that two-thirds of investors were willing to pay more for shares in corporations with sound corporate governance procedures. The performance of businesses and the governance procedures of their boards, however, were not shown to be significantly correlated (Cutting & Kouzim, 2000).

Nigeria is one of the most significant nations in the Sub-Saharan African Anglophone region because to its size, enormous population, markets for goods and services, and plenty of natural resources including crude oil and agriculturally fertile land. Corporate governance has undergone improvements, such as the 2003 release of the Securities Exchange Commission's (SEC) Code of Corporate Governance Best Practice. The Securities Exchange Commission (SEC) recently released a new code of corporate governance in 2011, while the Central Bank of Nigeria (CBN) adopted a code of corporate governance for banks following consolidation in 2006. The aforementioned information makes it clear that Nigeria has a variety of corporate governance codes. There are corporate failures of businesses despite these advances in corporate governance.

Through Nigeria's acquisition of independence from Britain in 1960, corporate governance in Nigeria may be traced back to the colonial era. Anglo-Saxon business law and regulation were imposed on the nation prior to its independence by the British colonial administration (Adegbite & Nakajima, 2011). British law served as the

inspiration for the behavior and governance of Nigerian businesses that are governed by it.

Nigeria thereby acquired the Anglo-Saxon corporate governance framework (Okike, 2007). The Nigerian government replaced the Companies Ordinance of 1922 after gaining independence with the 1968 Companies Act, which was based on the 1948 UK Companies Act. This suggests that all legal reforms are shaped after the Anglo-Saxon model and that the Nigerian legal framework for corporations has not been created in light of the local economic climate (Adegbite & Nakajima, 2011). As a result, the Nigerian government has historically been unable to address the issue of business law and the legal system from the standpoint of the nation's socio-political setting (Okike, 2007).

According to Nigeria's Securities Exchange Commission (SEC, 2006), despite all of these regulations, there are company failures in both the financial and non-financial sectors of the nation. There are signs that the banking sector and other businesses were collapsing in size, creating a path of problems for stakeholders such as owners, suppliers, depositors, employees, and others. The government took a risk by starting the evolution of corporate governance as a result of the chaotic status of the country at the time. Additionally, the SEC established a committee on corporate governance in June 2000 and the Code of Best Practices on Corporate Governance in Nigeria was filed in November 2003 in order to address the issue and conform with

global best practices. The audit committee, shareholder rights and privileges, and the role of the board of directors and management were the three identified triple limitations that were the basis for this Code of Corporate Governance Practices, which was based on unitary board structures (as in the UK and USA) (Aganga, 2011).

Corporate governance mechanism of each country is shaped by its political, economic and social history and also by its legal framework. Some of the most popular corporate governance mechanisms include; board size, board gender diversity, board independence, audit committee independence, corporate culture and ownership structure.

#### **2.1.2.1 Board Gender Diversity**

A company's board of directors has important positions. Their duties include managing the company's managers' attitudes and creating business strategies using their knowledge. The board of directors typically has final say over corporate reporting. On behalf of the company's shareholders, the boards make decisions. Therefore, any decisions made by the boards could have an effect on how well a firm performs. Policymakers have shown a greater interest in the diversity of the boardroom in recent years (Khaw & Liao, 2018). A diverse board, defined as one with members whose diversity in terms of gender, age, color, education, technical skill sets, and expertise, can bring a wealth of knowledge, ideas, and strategies that help the

business manage the requirements of various stakeholder groups (Harjoto & Lee, 2014).

A review of literature offers a number of interconnected explanations of why board diversity has an effect on the financial reporting quality of an organization. First, more diverse viewpoints and unconventional approaches to challenges may have an impact on decision-making on boards (Adams et al., 2015). According to Miller and Triana (2009) and Triana et al. (2013), a diverse board may demonstrate an understanding of the business environment and may enable boards to better identify the interests of various stakeholder groups. It could also assist businesses in gaining access to the skills of experts who can offer a range of resources, including status, legitimacy, funding, knowledge, and diversity (Terjesen et al., 2009). Second, female directors aren't just showpieces; they have different priorities from their male counterparts (Adams & Funk, 2012). Female directors have different leadership philosophies (Bear et al., 2010), and Hillman et al. (2002) found that they are more inclined to support community organizations and social responsibility initiatives. Women on boards can strengthen stakeholder engagement procedures and boost the reliability of company reporting. In addition, female directors have different personalities, communication styles, educational backgrounds, and professional experiences than male directors (Liao et al., 2015). According to Srinidhi et al. (2011), female directors are less prone to legal trouble and reputational damage. Due to these

variations, a gender diverse board may have an impact on the caliber of sustainability reporting. Thirdly, female directors are more likely to be stakeholder-oriented, concerned with ethical practices and socially responsible behavior, as well as be inclined to take actions to reduce perceived risks (Carter et al., 2003). According to Adams (2015), there are differences in ethical behavior between women and men, and female directors have different values and are more stakeholder oriented than male directors. Females also tend to adopt a more trust-based approach to business.

Frias-Aceituno et al. (2013) claim that board diversity encourages problem-solving, boosts leadership effectiveness, and enhances cross-cultural connections. Different board members have a variety of expertise and abilities that enable them to provide different perspectives and ideas to the board. In the USA, Harjoto et al. (2015) investigated the association between different aspects of board diversity (gender, outside directorship, tenure, race, age, power, and competence). They discovered that board diversity improves a company's capacity to meet the needs of its stakeholders, which is consistent with stakeholder theory. Greater board diversity, according to Gerwanski et al. (2019), may lead to improved stakeholder contact and more reporting.

The Upper Echelons theory, put forth by Hambrick and Mason in 1984, offers a helpful theoretical framework to explain the effects of board diversity. It states that background traits of the management team, particularly feelings, values, and beliefs, have an impact on organizational outcomes and performance (Park & Gould, 2017).

### **2.1.2.2 Board Size**

The size is a significant element thought to influence the effectiveness of the board. According to Fasan and Mio (2017), larger boards may improve corporate governance by decreasing CEO dominance and information asymmetry. The number of directors is a significant determinant of a board's effectiveness. A larger board size may allow for more directors with extensive experience representing a diversity of perspectives (Halme & Huse, 1997). Contrarily, Monks and Minow (1995) argue that large boards tend to be sluggish in decision-making, hindering change. Another argument favoring smaller boards is that directors infrequently challenge top management's policies, a problem exacerbated by increasing board size. Fewer directors imply better coordination and communication with managers (Jensen, 1993). Chaganti (1985) asserted that smaller boards are more manageable and fulfill a control function, whereas larger boards fail to operate effectively, affording management excessive autonomy. Yermack (1996) concluded that smaller boards of ten or fewer members enhance firm performance. Ahmed et al. (2006), Bradbury et al. (2006) indeed found that large boards diminish the information quality of earnings and intensify earnings management among U.S., Singaporean and New Zealand companies respectively.

On the other hand, some researchers have argued that having a higher number of directors actually enhances the value relevance and quality of financial statements

(Byard et al., 2006), while others did not find evidence supporting this proposed link (Firth et al., 2007). A study by Bonn (2004) discovered no relationship between board size and firm performance. She further contended that board size alone is a superficial metric that does not capture the actual duties and responsibilities of the directors. Therefore, one could argue that it is the skills, expertise and knowledge base that directors collectively bring to the firm that matters, not simply their headcount. Contrasting this view, Dwevedi and Jain (2005) found a positive but insignificant relationship between board size and governance quality. They concluded that larger boards are better positioned to strengthen a company's overall corporate governance.

According to Ben-Amar and McIlkenny (2015), Fasan and Mio (2017), and Suttipun and Bomlai (2019), a larger board of directors can offer a wider representation of ownership and be more transparent in releasing information about strategic goals and that is helpful to a wider group of stakeholders. Large boards also provide more management oversight capacity and variety in terms of financial knowledge.

### **2.1.2.3 Board Independence**

Executive and nonexecutive (independent) members typically make up the board of directors. According to Hossain & Reaz (2007), the definition of board independence is "the ratio of independent directors to the total number of directors." Agency theory (Akhtaruddin et al. 2009) claims that board independence can affect how well corporate governance tools work to prevent agency issues. As a matter of fact, boards with a higher percentage of independent directors are more effective at supervising and reining in management, as well as more successful at guiding management toward long-term value (Jizi et al. 2014). Overall, the effectiveness of the job of monitoring managerial opportunism will increase with the percentage of nonexecutive directors on the board (Fiori et al. 2016). This is primarily because, unlike the compensation of other board members, independent directors' compensation is not based on a company's short-term financial performance (Jizi et al. 2014).

A director is considered 'independent' when they do not have significant ownership stakes nor hold any executive role within the company (Bursa Malaysia, 2006). In Bangladesh, corporate governance guidelines mandate that at least one-tenth of a company's board members must be independent directors. However, in Malaysia, if a company has only three directors on its board, two of them are required to be independent (Bursa Malaysia, 2006). Boards with a higher proportion of independent directors are believed to have enhanced monitoring and control capabilities over management (Fama and Jensen, 1983). According to Kakabadse et al. (2010), previous

research on the effectiveness of independent directors has yielded conflicting results. For instance, it was discovered by O'Sullivan et al. (2008), Elzahar and Hussainey (2012), and Al-Najjar and Abed (2014) that the proportion of independent directors has little bearing on disclosures that are made with regard to the future. Qu et al. (2015) discovered, however, that businesses with a high proportion of independent directors published accurate sales estimates. In addition, Wang and Hussainey (2013) found a strong correlation between disclosures about earnings estimates and board independence.

#### **2.1.2.4 Ownership Concentration**

Ownership concentration refers to the proportion of a company's shares held by the major shareholders (Sanda et al., 2005). It is typically measured by the percentage owned by the five largest shareholders or by significant shareholders (Karaca & Ekşi, 2012; Obiyo & Lenee, 2011; Singh & Gaur, 2009). Le and Buck (2011) discovered that as ownership concentration increases, firm financial performance tends to improve; however, foreign and institutional ownership did not have a significant impact. They also found a curvilinear relationship between ownership concentration and firm performance, where performance peaks at moderate levels of concentration. Arosa et al. (2010), focusing on non-listed Spanish firms, showed that whether a firm is family-owned or not does not influence its performance. Alimehmeti and Paletta (2012) observed a positive relationship between ownership

concentration and firm value for Italian listed companies during the period 2006 to 2009, except for the year 2008. Other researchers, such as McConnell and Servaes (1990) and Omran (2009), have also found a positive correlation between ownership concentration and performance.

The agency theory distinguishes between two perspectives as regards ownership concentration. First, a large concentration of ownership leads to a low knowledge asymmetry, which lowers agency conflicts between the principle and the agent (Fama & Jensen, 1983), which lowers the demand for further disclosure. Second, a "freerider problem" develops in a corporation with widely dispersed ownership since the shareholders do not have the resources or the drive to address the management's agency issues.

According to the agency theory, there are increasingly substantial issues with management opportunism, information asymmetry, and the misalignment of stakeholder interests, which raises agency costs (Jensen & Meckling, 1976). Companies provide greater information on their social, environmental, and other activities to cut down on these expenditures (GarcaMeca & Sanchez-Ballesta, 2010).

Mixed empirical results have been found in the relationship between ownership concentration and the firm's voluntary sharing of information. For example, Cormier and Magnan (2003), Brammer and Pavelin (2006), Fathi (2013), Khan et al.

(2013), Muttakin and Khan (2014), and Dias et al. (2017) indicated that a concentrated ownership structure has a detrimental impact on the quantity and quality of disclosure. Others, such as Chau and Gray, Haniffa and Cooke (2002), and Huafang and Jianguo (2007), discovered a positive correlation between ownership concentration and disclosure. In spite of this, neither Gul and Leung (2004) nor Oliveira et al. (2011) discovered a connection between ownership structure and disclosure.

#### **2.1.2.5 Board Gender Diversity and Financial Reporting Quality**

Several studies have explored the relationship between board gender diversity and the quality of financial reporting. According to Adams and Ferreira (2009), gender-diverse boards tend to be more diligent in monitoring management, which can lead to higher-quality financial reporting. Similarly, Gul et al. (2011) found that gender diversity on corporate boards is positively associated with higher earnings quality and lower instances of earnings management.

Kyaw et al. (2020) investigated the impact of board gender diversity on financial reporting quality in the United Kingdom and revealed that firms with gender-diverse boards exhibit higher financial reporting quality, as measured by lower earnings management and higher earnings informativeness. Likewise, Al-Shaer and Zaman (2019) concluded that board gender diversity positively influences the quality of financial reporting in the Gulf Cooperation Council (GCC) countries.

However, it's worth noting that some studies have found no significant relationship or mixed results. For instance, Arun et al. (2015) did not find a significant association between board gender diversity and earnings management in Indian firms. Therefore, while the majority of studies suggest a positive impact of board gender diversity on financial reporting quality, the results are not entirely conclusive, and the relationship may be moderated by other factors such as industry, country, or firm-specific characteristics.

#### **2.1.2.6 Board Size and Financial Reporting Quality**

The relationship between board size and financial reporting quality has been extensively studied, with mixed findings. On one hand, larger boards are often associated with higher monitoring capabilities and a broader range of expertise, which can enhance the quality of financial reporting (Xie et al., 2003; Cheng and Courtenay, 2006).

On the other hand, some researchers argue that smaller boards are more effective in decision-making and monitoring, leading to higher financial reporting quality. For instance, Chtourou et al. (2001) found that firms with smaller boards exhibit lower levels of earnings management, suggesting higher financial reporting quality.

Other studies have also yielded conflicting results. Al-Okaily and Naueihed (2019) reported a negative relationship between board size and financial reporting quality in Jordanian companies, implying that smaller boards are associated with higher reporting quality. In contrast, Miko and Kamardin (2015) found a positive association between board size and financial reporting quality among Nigerian listed firms.

The inconsistencies in the findings may be attributable to the fact that the optimal board size could vary depending on factors such as firm size, industry, or country-specific governance practices. Additionally, the relationship between board size and financial reporting quality may be moderated by other board characteristics, such as independence or diversity.

#### **2.1.2.7 Board Independence and Financial Reporting Quality**

Board independence, measured by the proportion of non-executive or independent directors, is often considered a crucial corporate governance mechanism for enhancing financial reporting quality. Independent directors are expected to provide effective oversight and monitoring of management, reducing the potential for financial misreporting or earnings management (Peasnell et al., 2005).

Empirical evidence generally supports a positive relationship between board independence and financial reporting quality. For instance, Bédard et al. (2004) found

that firms with a higher proportion of independent directors exhibit higher earnings quality and are less likely to be involved in aggressive earnings management practices.

Similarly, Jiang et al. (2008) reported that firms with more independent boards are associated with higher accruals quality, a proxy for financial reporting quality. Moreso, Alzoubi (2019) concluded that board independence positively impacts financial reporting quality among listed firms in Jordan.

However, some studies have failed to find a significant relationship or have reported mixed results. Ghosh et al. (2010) did not find a significant association between board independence and earnings quality in the United States, suggesting that other governance mechanisms or firm-specific factors may play a more influential role.

Overall, while the majority of studies support the notion that board independence enhances financial reporting quality, the strength of the relationship may vary across different institutional contexts, and the impact could be moderated by other board or firm characteristics.

#### **2.1.2.8 Ownership Concentration and Financial Reporting Quality**

The relationship between ownership concentration and financial reporting quality has been extensively researched, with somewhat conflicting findings. According to agency theory, concentrated ownership can align the interests of owners and managers, reducing agency conflicts and the need for extensive disclosures or monitoring.

In line with this view, some studies have found that higher ownership concentration is associated with lower financial reporting quality. For example, Ali et al. (2008) reported that firms with higher ownership concentration exhibit lower accruals quality, a proxy for financial reporting quality.

However, other researchers have argued that concentrated ownership can incentivize large shareholders to demand higher transparency and better monitoring of management, leading to higher financial reporting quality (Hartzell and Starks, 2003).

Empirical evidence supporting this perspective includes the study by Wang (2006), which found that firms with higher ownership concentration exhibit higher earnings informativeness, a measure of financial reporting quality. Similarly, Bozec and Laurin (2008) reported a positive relationship between ownership concentration and accruals quality in Canadian firms.

Furthermore, Al-Janadi et al. (2013) investigated the relationship between ownership structure and earnings quality in Saudi Arabia and found that ownership

concentration is positively associated with higher earnings quality, supporting the notion that concentrated ownership enhances financial reporting quality.

However, it's important to note that the relationship between ownership concentration and financial reporting quality may be moderated by other factors, such as the type of ownership (e.g., institutional, family, or government), the legal and institutional environment, or firm-specific characteristics.

## **2.2 Theoretical Framework**

### **2.2.1 Stakeholder Theory**

Stakeholder theory is a development of the idea of a stakeholder and how it relates to any corporate entity. A stakeholder is "any group or individual who can control or is controlled by the achievement of the organization's objectives," according to Freeman (1984, cited in Schilling 2010). Therefore, a broad range of participants may be included under the word "stakeholder," in reality, everyone who has a direct or indirect "stake" in the company (Carroll 1993, cited in Schilling 2000). Direct stakeholders are those with interests similar to those of the company, such as shareholders, investors, employees, suppliers, and customers. A prime example of an indirect stakeholder—one who is not directly impacted by a company's operations—is the government (Kiel & Nicholson, 2003).

In accordance to this idea, a company's legitimacy and ability to deliver on its promises to shareholders are essential for establishing sustainable performance (Ferri et al., 2016). In this regard, Oshika and Saka (2017) came to the conclusion that management adopted the attitude of "Providing satisfaction to stakeholders" for business performance and declared it in their sustainability reports as the primary reason why Japanese firms were deemed more sustainable. According to stakeholder theory, businesses may keep their relationships with stakeholders strong by achieving their goals; this relationship can also boost the company's reputation and have a favorable effect on firm performance (Bose et al., 2017).

Shareholders, regulators, and other stakeholders paid more attention to a company's long-term sustainability and viability in the wake of the 2008 global financial crisis (Adams & Simnett, 2011). In order to comply, they demand that businesses publish additional nonfinancial information in their annual reports, including information on governance, social issues, environmental challenges, and sustainability (Camilleri, 2018; Velte & Stawinoga, 2017).

The agency view, which anticipates that the board of directors will look out for the interests of the shareholders, is expanded by the stakeholder theory. To account for the interests of many diverse stakeholder groups, including those with a stake in social, ethical, and environmental issues, this narrow focus on shareholders has been widened (Freeman et al., 2004). Increased shareholder value, according to Sundaram and

Inkpen (2004), is an important objective since it is the only one that influences decisions that result in better outcomes for all stakeholders. They argue that it is impossible for managers to recognize a vast number of stakeholders and their guiding principles. Stakeholder perspective proponents also contend that increasing shareholder wealth will result in the transfer of value from non-shareholders to shareholders.

### **2.2.2 Agency Theory**

According to agency theory, a cost known as agency cost is caused by a misalignment between the owner (principal) and management (agent). A significant information gap between the principal and agent exists despite firms' ongoing efforts to provide more performance data, according to a vast body of prior research (Dong et al., 2021). One of the crucial methods for addressing this issue is increasing corporate transparency so investors may perform objective, in-depth reviews of the company's behavior (Silitonga et al., 2020). A considerable knowledge imbalance still exists between investors and management, despite companies' ongoing efforts to reveal more information about their performance; this presents a significant reporting difficulty (Briem & Wald, 2018). Information asymmetry occurs when one party has more information than the other, frequently between management (Agent) and shareholders (Principle).

An explanation and solution for problems with the connection between the principals (owners) and their agents (managers) is provided by the agency theory. The relationship between the company's executives, such as agents, shareholders, and principals, is the one that occurs most frequently. The agents actually create and carry out strategic plans. Additionally, disputes between the two parties are uncommon as long as their interests are aligned (Jensen & Meckling, 1976). They occasionally have divergent corporate objectives, which can create conflicts of interest (Healy & Palepu, 2001).

The board of directors and the audit committee thus represent an important corporate governance mechanism through which agency problems and information asymmetries can be reduced, and this study uses the agency theory to explain the connective framework of corporate governance and the financial reporting. On the other hand, agents must increase the number and quality of financial and non-financial information disclosures in order to reduce the costs associated with their services.

Agency theory views corporate governance mechanisms, particularly the board of directors, as critical monitoring tools to mitigate issues stemming from the principal-agent relationship within corporations. As Blair (1996) notes, managers are supposed to act as "agents" for the corporation's "owners," but institutional arrangements with checks and balances are necessary to prevent potential abuse of managerial power. Much of agency theory's application in the corporate context arises

due to the separation of ownership and control. In this framework, managers are the "agents" while shareholders are the "principals" - representing the most commonly cited principal-agent relationship regarding corporate governance. The board's oversight role aims to align manager and shareholder interests by monitoring management on behalf of the dispersed owners.

### **2.2.3 Resource Dependency Theory**

The resource dependency hypothesis, according to Pfeffer and Salancik (2003), discusses how external resources affect how a corporation makes decisions. According to this theory, a business should have an interdependent relationship between management and outside parties to reduce dependence and uncertainty and ensure the company's survival (Pfeffer & Salancik, 2003). According to Pfeffer and Salancik (2003), and Hillman and Dalziel (2003), the board's role in providing resources benefits the company in four different ways: (1) directors offer advice and counsel to facilitate the company's strategic decision-making process; (2) directors serve as an important conduit for communication with the outside world; (3) directors build networks and connections with other businesses; and (4) directors contribute to the improvement of companies' legitimacy.

The Resource Dependence Theory (RDT) postulates that boards give employees access to resources that would not otherwise be available (Pfeffer &

Salancik, 1978); RDT views boards as a business asset that contributes to long-term value development. Advice on strategic initiatives, active participation in decision-making, and follow-up on strategic decisions are all included in the advice or resource providing duty. According to Pfeffer and Salancik (1978), boards of directors can provide businesses with counsel and expertise, access to resources, and credibility. Pfeffer has urged for more research to evaluate the hypotheses put forth by resource dependency and other theories about the determinants of the size and makeup of corporate boards given the significance of corporate boards in getting these essential advantages. In response to that question, Amy Hillman (2005) discovered that businesses in highly regulated industries had more ex-politicians on their boards than businesses in less regulated industries, and she also discovered some evidence that this is related to better financial success. She deduced, in line with the resource dependence theory, that ex-politicians act as information conduits and provide access to significant political resources that are very helpful to businesses functioning in highly regulated contexts.

In addition, Hillman et al. (2007) discovered that resource dependency theory's predictions are supported by the participation of women on company boards. Women directors are more likely to be found on the boards of large organizations that are subject to legitimacy demands, businesses in sectors that largely rely on female employees, and businesses with connections to businesses that have female board

members. As a result, the membership of boards appears to reflect the environmental restrictions that businesses must contend with, lending support to the idea that boards should be strategically chosen by companies in order to avoid uncertainty. According to resource dependence theory, adding competitors, important suppliers, or consumers to the board of directors is a tactic for cooptation in uncertain conditions. Hence, the resource dependency theory is very crucial in understanding the impact of corporate governance on the financial reporting quality of a firm.

This study is anchored upon the agency theory. As an established and widely accepted framework in corporate governance research, agency theory directly addresses the principal-agent relationship between shareholders (principals) and management (agents), which lies at the heart of this study. The potential conflicts of interest and information asymmetries that can arise between these two parties are central to understanding the importance of robust corporate governance mechanisms, such as an effective board of directors and audit committees, in enhancing financial reporting transparency and quality. By anchoring this study on agency theory, well-developed concepts and extensive empirical evidence can be leveraged upon to construct a robust theoretical framework that explains how corporate governance structures can mitigate agency problems and align the interests of managers and shareholders, ultimately leading to higher-quality financial reporting practices. While stakeholder theory and resource dependency theory offer valuable perspectives,

agency theory's direct relevance to the principal-agent dynamic and its proven application in numerous corporate governance studies make it the most appropriate theoretical lens for this study.

### **2.3 Empirical Review**

Empirical Analysis is an important aspect of research which enables the researcher to discover what has already been done in the specific area of research. It also helps the researcher to be familiar with the state of knowledge in the area being studied. However, various works of other researchers have been reviewed and are discussed below.

Bako (2018) investigated the influence of corporate governance practices on the quality of financial reporting in the Nigerian Chemical and Paint Industry. The research considered all companies listed on the Nigeria Stock Exchange as of December 2013 as the population, from which a sample of four companies was selected and examined over a five-year period from 2009 to 2013. The data for the study was obtained from the annual reports and accounts of the sampled companies, utilizing secondary data sources. The analysis employed correlation and regression techniques. The findings indicated that board size and board independence had an insignificant impact on the quality of financial reporting in the Nigerian Chemical and Paint Industry. Additionally, the presence of non-executive directors on the audit

committees of firms in this industry was found to have an insignificant effect on financial reporting quality. The study recommended that regulatory agencies establish a committee to verify the appointment of non-executive directors to prevent the inclusion of individuals with potential conflicts of interest on company boards. It also suggested that the Securities and Exchange Commission, in collaboration with other regulatory bodies, should ensure that companies in the Nigerian Chemical and Paint Industry have competent and experienced directors serving on their boards.

Dilling and Caykoylu (2019) examined the determinants of companies that disclose high quality integrated reports in 2017 fiscal year. The study used total Integrated reporting (IR) disclosure score as dependent variable and location of company, company size, industry, profitability, leverage, earnings quality, female executives, female board members, external board members, IIRC examples base, external assurance, and previous integrated reports published as the independent variables. A sample of 110 global organizations was selected to determine in what way companies report on specific topics related to the six capitals: social and relationship, human, intellectual, manufacturing, natural, and financial. Descriptive statistics and ordinary least squares (OLS) regression model was employed. It was discovered from this study that firm characteristics such as female board ratio, total assets, and being in the IR examples database have a positive and significant relationship with integrated report disclosure quality, while the female executive officer ratio, external board

member ratio, profitability, leverage, report length, and reporting experience have a negative and significant relationship with total integrated reporting disclosure quality.

Cooray et al. (2020) explored the impact of Corporate Governance on the quality of Integrated Reporting in Sri Lanka between 2014 and 2017. A sample of 44 companies who had published integrated reports over a period of three successful years from 2014 to 2017 was adopted. The study used integrated reporting quality as endogenous variable and board size, independence of board, CEO duality, gender diversity, and composition of the audit committee as exogenous variables. Descriptive statistics coupled with Pearson correlation and panel regression analysis was employed in analyzing the data from the selected companies. The result of the study revealed a significant positive relationship between board size and integrated reporting quality (IRQ), while the relationship between board independence, CEO duality, gender diversity, independence of audit committee and IRQ was positive but statistically insignificant. Hence, it was recommended that there's a need for a change in corporate governance mechanisms to focus on an expanded coverage of reporting to capture information beyond financial statements and to maintain the quality of such non-financial disclosures.

Vitolla et al. (2020) explored the impact of board characteristics on the quality of Integrated Reporting: An agency theory perspective. A sample of 134 international firms who has adopted integrated reporting was used whose integrated reports were

selected randomly from 5 different continents, 26 different countries that operates in 5 different sectors. The study used integrated reporting quality as endogenous variable and board size, board Independence, board diversity, board activity, corporate social responsibility/sustainability committee, return on equity, firm size, variable age, and environmental sensitivity as exogenous variables. Descriptive statistics coupled with Pearson correlation and linear multiple regression analysis was employed in analyzing the data from the selected firms. The result of the study revealed that the size, presence of independent members and women, and the level of board activity had a positive impact on integrated reporting quality.

Udofia et al. (2021) assessed the influence of Corporate Governance on Integrated Reporting among listed companies in Nigeria between 2013 and 2017. The study used integrated reporting as dependent variable and board ownership, board size, board gender diversity, board independence, board activism as independent variables. Purposeful sampling technique was adopted to select a sample of 90 listed companies and the panel least square regression (random effect estimator) was employed in the analysis of data. The study revealed that only board activism has a positive and significant effect on integrated reporting. Board size, board independence and board ownership were positive but statistically insignificant, while board gender diversity was found to have a negative and statistically insignificant relationship with integrated reporting.

Hichri (2022) examined the effect Corporate Governance on Integrated Reporting: evidence of French companies between 2016 and 2019. The study used the degree of integrated reporting as dependent variable and board size, cognitive diversity, CEO duality, and audit committee as independent variables. A sample of 120 listed French companies were collected out of which 12 companies were excluded due to unavailability of data, 5 companies due to their nature as foreign firms and 8 financial firms were also excluded bringing the number of companies in the final sample to 95. Correlation and panel regression analysis was employed. It was discovered that cognitive diversity and audit committee has a positive and significant effect on integrated reporting while CEO's duality and board size has a negative effect on integrated reporting.

Hasan et al. (2022) examined the impact of corporate governance practices on financial reporting quality (FRQ) in Pakistan and the United Kingdom. The research analyzed FRQ using three accrual-based models for a sample of 1,550 firm-year observations, which included 78 firms from Pakistan and 77 firms from the UK, covering the period from 2009 to 2018. The findings revealed that larger board sizes had a negative effect on FRQ, while foreign ownership had a positive influence on FRQ for firms in both Pakistan and the UK. Additionally, the study showed that board independence positively impacted FRQ of Pakistani firms, whereas the frequency of board meetings and the independence of audit committees had a negative impact.

Furthermore, the research demonstrated that board gender diversity and ownership concentration negatively affected FRQ of UK firms. However, the authors acknowledged that since the study focused specifically on Pakistani and UK firms, the results might not be generalizable to other developed and emerging economies.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Preamble**

This chapter covers the techniques and strategies used for data collection and research execution. This chapter entails the research design to be used, the population, sample and sampling technique, sources of data, data analysis method, model specification, and the operationalisation of variables.

### **3.1 Research Design**

To examine the relationship between corporate governance and financial reporting quality, the study engaged the use of ex-post facto research design. The ex-post facto research design helps to establish the causal effect among the variables; dependent and independent variables. The study engaged the use of panel data, since it involves the contribution of time series and cross-sectional data in pooling the required data for the period between 2018-2023.

### **3.3 Population and Sample**

The population of this study covers non-financial firms with a total population of 107 quoted on the floor of the Nigerian Exchange Group (NGX) as at 31<sup>st</sup> December, 2023 (NGX, 2023). The sample size of this study will comprise of 41 non-financial listed firms. They include firms under industrial goods (13), consumer goods (21), and healthcare (7).

### **3.4 Sampling Technique**

In selecting the sample, the study focuses on non-financial firms in the consumer goods, healthcare, and industrial goods industries. Random sampling technique was used for this study. This technique is employed as it offers the study's population an equal chance of getting chosen. In other to get the sample size for this study, Taro Yamane (Yamane, 1973) formula was used. By using Taro Yamane (Yamane, 1973) formula, 90% confidence level of interval was applied.

The calculation formula of Taro Yamane is presented as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where;

$n$  = the sample size

$N$  = the finite population

$e$  = the level of significance or limit of tolerable error

1 = unit or a constant

By applying the Taro Yamane formula for determining sample size,

$$n = \frac{41}{1 + 41 (0.1)^2}$$

$$n = \frac{41}{1.41}$$

$$n = 29.07$$

Hence a sample of 29 non-financial companies was selected randomly and their annual reports were analysed.

### **3.5 Sources of Data**

Secondary data will be used for this study. The data will be retrieved from corporate annual reports of the sampled companies for 2018-2023 financial period. Only corporate annual reports were utilized because they were readily available, accessible, and also provides a greater potential for comparability of results. More so, they are produced annually and kept in public sphere.

### **3.6 Model Specification**

The model used in this study was adapted from Hasan et al. (2022). They used board composition (board size, board independence, board gender diversity, board meeting frequency), ownership structure (ownership concentration, institutional ownership, managerial ownership, foreign ownership) and audit committee (audit committee size, audit committee independence) as their independent variables, however, only board composition (board size, board independence, board gender

diversity) and ownership structure (ownership concentration) was adapted for this study.

The regression model depicting the relationship between corporate governance and financial reporting quality is presented below;

$$FRQ_{it} = \beta_0 + \beta_1 BDGD_{it} + \beta_2 BSIZE_{it} + \beta_3 BIND_{it} + \beta_4 OWNC_{it} + \varepsilon_{it}$$

Where;

FRQ = Financial Reporting Quality

BDGD = Board Gender Diversity

BSIZE = Board Size

BIND = Board Independence

OWNC = Ownership Concentration

$\beta_0$  = Intercept/Constant

$\beta_1 \dots B_4$  = Coefficients

$\varepsilon$  = Error term

### 3.6.1 Measurement and Operationalisation of Variables

Variable	Symbol	Measurement	Source	Aprori expectation/ Signs
Financial Reporting Quality	FRQ	The total accruals is measured as the change in non-cash current assets minus the change in current non-interest bearing liabilities, minus depreciation and amortization expense for firm <i>i</i> in year <i>t</i> , scaled by lagged total assets.	Hope et al. (2013)	
Board Gender Diversity	BDGD	Ratio of women on the board to total board members	Kilic et al. (2015)	+
Board Size	BSIZE	Total number of directors on the board	Meniaoui et al. (2016)	+
Board Independence	BIND	The percentage of independent non-executive directors on the board	Majumder et al. (2017), Hurghis (2017), Kilic et al. (2015), Ibrahim and Hanefah (2016)	+
Ownership Concentration	OWNC	Percentage of total shares outstanding belonging to block holders having 5% or more shares.	Hasan et al. (2022)	+

Source: Author's compilation, 2024

### **3.7 Method of Data Analysis**

This study engaged the use of dynamic panel data as the statistical method for each of the year's observation since the study involves both cross-sectional and time-series method. This study adopted multiple regression because it allows for testing of one dependent variable with several independent variables, therefore, multiple regression analysis is more suitable for this study. This study employs a generalized method moment (GMM) estimation technique for the empirical evidence of corporate governance and financial reporting quality. In this light, corporate governance may be endogenous. The concern for endogeneity might occur in the sense that the coefficient may be biased provided the proxy for corporate governance and financial reporting quality is highly correlated with the error term. The endogenous variable (i.e., corporate governance) is more clearly associated with the random variable (i.e., financial reporting quality), and the least-square-problem for such an equation cannot be resolved. The regression analysis will be accompanied by some basic statistical analysis like descriptive statistics and correlation analysis and test of normality of regression variables.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **4.1 Preamble**

This chapter aims at investigating the relationship between corporate governance and financial reporting quality in non-financial firms in Nigeria. It starts by carrying out some descriptive analyses of the variables of interest in order to measure the level of corporate governance and financial reporting quality. Moreover, the Pearson correlation was conducted to determine if autocorrelation exists among the variables.

This research used the Generalised Method of Moments (GMM) to test the hypotheses developed in examining the relationship between the dependent variable and independent variables. The reason for the choice of GMM was due to the endogeneity of the explanatory variables used in this study. Also, as suggested by Pagach and Warr, 2011, GMM is better where the independent variable is determined by a list of other determinants or control variables. Therefore, there is a need to use a more robust technique to correct for the bias among the estimated coefficients among the independent variables.

## 4.2 Descriptive Statistics

This study examined the relationship between corporate governance and financial reporting quality. Descriptive statistics are carried out to help the required analyses. Data are arranged on a yearly basis, along with data pooling so as to permit a thorough analysis of corporate governance and financial reporting quality variables. The result of the descriptive statistics for each of the year is depicted in the following tables.

**Table 4.1: Descriptive Statistics for Corporate Governance and Financial Reporting Quality**

	FRQ	BDSZ	BGD	BIND	OC
Mean	0.583334	6.875	0.462863	0.533714	0.554307
Median	0.63	7	0.5	0.6	0.54
Maximum	1.145	10	0.9	0.909	0.8417
Minimum	-0.991	4	0	0	0.25
Std. Dev.	0.261043	1.605334	0.200729	0.251651	0.104072
Skewness	-2.99313	0.32623	-0.46786	-0.33584	0.122378
Kurtosis	17.60029	2.395404	2.781699	2.085175	4.634554
Jarque-Bera	1743.027	5.538675	6.462636	9.016374	19.1217
Probability	0	0.062704	0.039505	0.011018	0.00007
Sum	98.00009	1155	77.76095	89.66387	93.1235
Sum Sq. Dev.	11.37996	430.375	6.728776	10.57582	1.808784
Observations	168	168	168	168	168

Table 4.1 shows the descriptive statistics of corporate governance and financial reporting quality. The dependent variable which is financial reporting quality (FRQ) has a maximum value of 1.145 and a minimum value of -0.991 and a reported mean value of 0.583. This indicates that, on average, the entities have a relatively positive level of financial reporting quality, though there is considerable variation as indicated by the range between the minimum and maximum values. However, the standard deviation value of 0.261 is relatively low in relation to the mean value.

From the independent variables point of view, board size (BDSZ) reported a mean value of 6.875, a maximum value of 10 and a minimum value of 4. This range indicates moderate variability, with the average board size suggesting a typical board of about 7 members. Understanding the distribution and implications of board size is important for assessing governance practices and their potential impact on organizational effectiveness. However, the standard deviation value of 1.605 is low (relative to the mean value).

The board gender (BGD) variable indicates that, on average, 46.3% of board members are female, with individual board gender proportions ranging from 0 (no female members) to 0.9 (90% female members). This substantial range signifies a wide variation in gender representation on boards. While the mean value shows progress towards gender diversity, the presence of boards with no female members highlights ongoing challenges in achieving balanced gender representation. However,

the standard deviation value of 0.201 is low (relative to the mean value). Board independence (BIND) has a maximum value of 0.909 and a minimum value of 0, with a reported mean value of 0.534. This suggests that, on average, approximately 53.4% of the board members are independent. However, the standard deviation value of 0.252 is lower than the mean value. Also, ownership concentration reported a mean value of 0.554, a maximum value of 0.8417 and a minimum value of about 0.25. This suggests that, on average, the largest shareholders own about 55.4% of the shares in these entities. This range shows significant variation in the distribution of ownership among shareholders. The mean value suggests that, on average, the largest shareholders hold a majority stake in the entities. High ownership concentration can imply significant control by a few shareholders, while lower concentration can indicate a more distributed ownership structure, each with its own governance implications. However, the standard deviation value of 0.104 is low (relative to the mean value). From the descriptive analysis, the skewness value falls within the normal range of  $\pm 1.96$  (Creswell, 2014) while the kurtosis figure falls within the range of  $\pm 3$  (Wong & Millington, 2014). It is assumed that the data are normally distributed data falls within this range.

#### **4.5 Correlation Analysis**

Correlation analysis is carried out to detect any autocorrelation between corporate governance and financial reporting quality. The study used Pearson

correlation coefficients to examine the required relationships so as to allow for the non-normality of the variables in question.

**Table 4.2: Pearson Correlation Coefficient for Corporate Governance and Financial Reporting Quality**

Covariance Analysis: Ordinary  
Sample: 2018 2023  
Included observations: 168

Correlation t-Statistic Probability	FRQ	BDSZ	BGD	BIND	OC
FRQ	1.000000 ----- -----				
BDSZ	-0.357133 -4.926197 0.0000	1.000000 ----- -----			
BGD	0.531623 8.086947 0.0000	-0.182943 -2.397523 0.0176	1.000000 ----- -----		
BIND	0.510041 7.639852 0.0000	-0.098260 -1.272145 0.2051	0.590291 9.422013 0.0000	1.000000 ----- -----	
OC	0.258810 3.452161 0.0007	0.105013 1.360515 0.1755	-0.187553 -2.460104 0.0149	-0.102895 -1.332784 0.1844	1.000000 ----- -----

Table 4.2 presents the Pearson correlation of the corporate governance and financial reporting quality. Board size (BDSZ) has a negative relationship with financial reporting quality (FRQ) having coefficient of -0.357. However, board gender (BGD) has a positive relationship with financial reporting quality (FRQ) with a coefficient value of 0.532. Similarly, board independence shows a positive

relationship with FRQ with a coefficient value of 0.510. Ownership concentration present a positive and significant (0.259) relationship with FRQ at 1% significance level.

#### **4.4 Multivariate Analysis- Generalised Method of Moments (GMM)**

Generalised Method of Moments (GMM) is engaged to test the models developed in relation to research hypotheses of this study. The advantage of generalised method of moments (GMM) technique is that it measures the quality of accounting information by combining the variables from the different time period and across companies within each condition that are integrated to predict the fitness of a model with a reasonable degree. It also handles a wide range of different time series and cross-sectional patterns. This method is robust because it handles any existence of multicollinearity problem related to the entire data. The coefficients are easily estimated by applying ordinary least square to each equation individually (Dhungel, 2014).

**Table 4.2: Generalized Method of Moments (GMM) for Corporate Governance and Financial Reporting Quality**

Dependent Variable: FRQ  
 Method: Panel Generalized Method of Moments  
 Date: 05/18/24 Time: 17:06  
 Sample: 2018 2023  
 Periods included: 6  
 Cross-sections included: 28  
 Total panel (balanced) observations: 168  
 2SLS instrument weighting matrix  
 Instrument specification: BIND BGD BDSZ OC C

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BIND	0.312197	0.066774	4.675404	0.0000
BGD	0.484238	0.085647	5.653909	0.0000
BDSZ	-0.048867	0.008617	-5.671010	0.0000
OC	0.981172	0.133033	7.375400	0.0000
C	-0.015334	0.105449	-0.145415	0.8846
R-squared	0.560021	Mean dependent var		0.583334
Adjusted R-squared	0.549224	S.D. dependent var		0.261043
S.E. of regression	0.175264	Sum squared resid		5.006943
Durbin-Watson stat	1.342412	J-statistic		4.92E-24
Instrument rank	5			

\*\*\*significant at 1% level, \*\*significant at 5% level, \*significant at 10% level.

Table 4.3 present the result of panel GMM for corporate governance and financial reporting quality. The result shows that the estimated coefficient of BIND is positive having a value of 0.312 which suggests that a unit increase in BIND leads to about 31.2% increase in financial reporting quality. Also, BIND is significant ( $0.00 < 0.01$ ) at 1% significance level; this finding underscores the importance of board independence in enhancing the quality of financial reporting and suggests that organizations should consider increasing the proportion of independent members on their boards to achieve better governance outcomes. In the same vein, the analysis shows that board gender diversity (BGD) has a positive and significant effect on financial reporting quality (FRQ). BGD reported a coefficient value of 0.484; this means that a unit increase in board gender results in a 48.4% increase in financial

reporting quality. Also, BGD is significant at p-value ( ) 1% significance level. This strengthens the confidence in the finding that board gender diversity positively affects financial reporting quality. Board size (BDSZ) show a negative coefficient value of -0.049 which implies that an increase in the board size will result in 4.9% decrease in the financial reporting quality of the selected firms. This implies that larger boards may be less effective in ensuring high-quality financial reporting, potentially due to issues such as coordination difficulties and less effective oversight. However, BDSZ is significant at p-value ( $0.00 < 0.01$ ) at 1% level of significant. This significant negative relationship suggests that smaller boards might be more effective in maintaining high-quality financial reporting due to better coordination and more effective oversight. Ownership concentration (OWN) is positive having a coefficient value of 0.981, which indicate that an increase in the percentage of managerial ownership will lead to about 98.1% increase in the financial reporting quality of the firm. This implies that higher ownership concentration, where managers own a significant share of the company, aligns managerial interests with those of shareholders, leading to better financial reporting quality. However, OC is significant at p-value ( $0.00 < 0.01$ ) at 1% level of significance. This significant positive relationship implies that when managers own a larger share of the company, they are more likely to ensure high-quality financial reporting, possibly due to better alignment of interests between managers and shareholders. From the result, the Adjusted R-square value of 0.549 indicates that about 55% of the cross-sectional variation in the dependent variable of financial reporting quality is accounted for by the explanatory variables. This means the adjusted  $R^2$  value of 55% shows an average explanatory power of the independent variables.

## 4.5 Discussion

In this section, the hypotheses formulated are discussed and relate to the existing studies.

### 4.5.1 Discussion of Result from Hypothesis 1

*H<sub>01</sub>: There is no significant relationship between board gender diversity and financial reporting quality of non-financial firms in Nigeria.*

In order to draw a conclusion on the hypotheses testing, there is a need to evaluate the explanatory variables of the model and present a reasonable assessment. Looking at the panel GMM (table 4.3). The result shows that the BGD coefficient is significant ( $0.00 < 0.01$ ) at 1% significance level; this means board gender has led to an increase in the financial reporting quality of the selected firm. This significant relationship indicates that increasing the proportion of female members on the board leads to improvements in financial reporting quality, enhancing the reliability and accuracy of financial statements. The findings support the promotion of gender diversity on corporate boards as a key factor in improving governance and financial reporting practices. This result is consistent with the studies of Dilling and Caykoylu (2019); Kyaw et al. (2020) and Vitolla et al. (2020), which found a significant positive relationship between board gender and financial reporting quality. This led to the suggestion from empirical studies that gender-diverse boards can bring a variety of perspectives and approaches to decision-making and oversight, which can lead to

more thorough and effective governance practices. This diversity can help in identifying and mitigating risks, enhancing the accuracy and reliability of financial reporting. Given that board gender diversity produces a significant relationship with the financial reporting quality. Thus, the study accepts the alternative hypothesis and reject the null hypothesis.

#### **4.5.2 Discussion of Result from Hypothesis 2**

*H<sub>02</sub>: There is no significant relationship between board size and financial reporting quality of non-financial firms in Nigeria.*

With regard to testing of hypothesis 2; there is a need to evaluate the explanatory variables of the model and present a reasonable assessment. Looking at the panel GMM (table 4.3) of for corporate governance and financial reporting quality. The result shows that the BDSZ coefficient is negatively significant ( $0.00 < 0.01$ ) at 1% significance level; this means that there is an inverse relationship between board size and financial reporting quality of the selected firms. The findings suggest that smaller boards might be more effective in maintaining high standards of financial reporting due to better coordination and more efficient decision-making. This has important implications for corporate governance practices, regulatory guidelines, and investor assessments of governance quality. Empirical studies have suggested that smaller boards might be more agile and effective in providing oversight and governance. They can facilitate better communication, quicker decision-making, and more cohesive

oversight, leading to higher financial reporting quality. This result is consistent with the studies of Al-Okaily and Naueihed (2019); Hasan et al. (2022) who concluded that board size has a significant negative influence on financial reporting quality. Given that board size produces a significant negative relationship with the financial reporting quality. Thus, the study accepts the alternative hypothesis and reject the null hypothesis.

### **4.5.3 Discussion of Result from Hypothesis 3**

*H<sub>03</sub>: There is no significant relationship between board independence and financial reporting quality of non-financial firms in Nigeria.*

With regard to testing of hypothesis 3; there is a need to evaluate the explanatory variables of the model and present a reasonable assessment. Looking at the panel GMM (table 4.3) of for corporate governance and financial reporting quality. The result shows that the BIND coefficient is positively significant ( $0.00 < 0.01$ ) at 1% significance level; this means that there is a direct relationship between board independence and financial reporting quality of the selected firms. This means that as board independence increases, financial reporting quality also increases. The findings suggest that independent board members are often better positioned to provide objective oversight and governance. They can bring diverse perspectives, challenge management decisions, and ensure that financial reporting practices adhere to high standards, leading to improved financial reporting quality. The findings support

regulatory efforts aimed at promoting board independence as a means to enhance financial reporting quality. Regulators and policymakers might use this evidence to reinforce requirements or recommendations for independent board representation in corporate governance guidelines. This result is consistent with the studies of Vitolla et al. (2020) and Hasan et al. (2022) who concluded that board independence has a significant positive impact on financial reporting quality. Given that board independence produces a significant positive relationship with the financial reporting quality. Thus, the study accepts the alternative hypothesis and reject the null hypothesis.

#### **4.5.4 Discussion of Result from Hypothesis 4**

*H<sub>04</sub>: There is no significant relationship between ownership concentration and financial reporting quality of non-financial firms in Nigeria.*

With regard to testing of hypothesis 4; there is a need to evaluate the explanatory variables of the model and present a reasonable assessment. Looking at the panel GMM (table 4.3) of for corporate governance and financial reporting quality. The result shows that the OC coefficient is positively significant ( $0.00 < 0.01$ ) at 1% significance level; this means that there is a direct relationship between ownership concentration and financial reporting quality of the selected firms. This means that as ownership concentration increases, financial reporting quality also increases. The findings suggest that higher ownership concentration, particularly when managers or

insiders hold a significant stake, can align the interests of owners and management. This alignment can lead to better governance practices, including more accurate and transparent financial reporting. Concentrated ownership structures may facilitate more effective oversight by owners, leading to better monitoring of management actions and financial reporting practices. Owners with significant stakes have stronger incentives to ensure accurate and reliable financial reporting to protect their investments. This result is consistent with the studies of Al-Janadi et al. (2013); Bozec and Laurin (2008) and Wang (2006) who found a positive and significant relationship between ownership concentration and financial reporting quality. Given that ownership concentration produces a significant positive relationship with the financial reporting quality. Thus, the study accepts the alternative hypothesis and reject the null hypothesis.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Preamble**

This chapter summarises the research work in terms of the work done, theoretical and empirical findings of the study, conclusion, and recommendations. Also, the contribution was highlighted, and limitation of the study were discussed.

#### **S.2 Summary of Work done**

The increasing desire by organizational managers to provide quality financial reporting and the plethora of findings on the influence of corporate governance and financial reporting quality underscores the essence of this study. As stated in previous chapters, earlier studies have examined the influence of corporate governance and financial reporting quality. The response of investors to financial reporting quality is usually influenced by the company's corporate governance.

This study utilised the secondary method of data analysis. The secondary data was obtained basically from annual report of the selected 28 non-financial quoted companies in the Nigerian Exchange Group. The study developed four hypotheses to test proxies (board size, board gender diversity, board independence and ownership concentration) used for corporate governance.

Furthermore, the study conducted a descriptive statistics test, Pearson correlation and panel generalised method of moments (GMM) analysis to measure whether there is a relationship between the variables (i.e. corporate governance and financial reporting quality) and also to find out if the relationship is significant or not. The financial reporting quality which is dependent variable was proxy using the total accrual according to the models developed.

### **5.3 Summary of Findings**

This section summarises the empirical findings. The empirical findings from the study carried out on the corporate governance and financial reporting quality of non-financial firms listed on the Nigerian Exchange Group

#### **Hypothesis 1 and Research Question 1**

This deals with the effect of corporate governance and financial reporting quality of non-financial listed firms in the Nigerian Exchange Group. In testing the hypothesis and providing answers to research question 1, the generalised method moments (GMM) analysis was engaged. The results were presented in Table 4.3. Based on the findings, the null hypothesis which states that there is no significant relationship between board gender diversity and financial reporting quality of non-financial firms in Nigeria was rejected. This implies that board gender diversity significantly influences the quality of financial reporting of the selected firms in

Nigeria. On the other hand, the alternate hypothesis which states that there is significant relationship between board gender diversity and financial reporting quality of non-financial firms in Nigeria was accepted.

### **Hypothesis 2 and Research Question 2**

This deals with the effect of corporate governance and financial reporting quality of non-financial listed firms in the Nigerian Exchange Group. In testing the hypothesis and providing answers to research question 2, the generalised method moments (GMM) analysis was engaged. The results were presented in Table 4.3. Based on the findings, the null hypothesis which states that there is no significant relationship between board size and financial reporting quality of non-financial firms in Nigeria was rejected. This implies that board size significantly influences the quality of financial reporting of the selected firms in Nigeria. On the other hand, the alternate hypothesis which states that there is significant relationship between board size and financial reporting quality of non-financial firms in Nigeria was accepted.

### **Hypothesis 3 and Research Question 3**

This deals with the effect of corporate governance and financial reporting quality of non-financial listed firms in the Nigerian Exchange Group. In testing the hypothesis and providing answers to research question 1, the generalised method moments (GMM) analysis was engaged. The results were presented in Table 4.3.

Based on the findings, the null hypothesis which states that there is no significant relationship between board independence and financial reporting quality of non-financial firms in Nigeria was rejected. This implies that board independence significantly influences the quality of financial reporting of the selected firms in Nigeria. On the other hand, the alternate hypothesis which states that there is significant relationship between board independence and financial reporting quality of non-financial firms in Nigeria was accepted.

#### **Hypothesis 4 and Research Question 4**

This deals with the effect of corporate governance and financial reporting quality of non-financial listed firms in the Nigerian Exchange Group. In testing the hypothesis and providing answers to research question 4, the generalised method moments (GMM) analysis was engaged. The results were presented in Table 4.3. Based on the findings, the null hypothesis which states that there is no significant relationship between ownership concentration and financial reporting quality of non-financial firms in Nigeria was rejected. This implies that ownership concentration significantly influences the quality of financial reporting of the selected firms in Nigeria. On the other hand, the alternate hypothesis which states that there is significant relationship between ownership concentration and financial reporting quality of non-financial firms in Nigeria was accepted.

## 5.4 Conclusion

This study examined the impact of corporate governance and financial reporting quality of non-financial listed firms in the Nigerian Exchange Group. In achieving the objectives of this study, data were obtained from the annual report of twenty-eight quoted companies in the in NXG. There are four hypotheses formulated and tested using generalised method moments (GMM) analysis for all hypothesis 1 to 4 respectively. From the findings of this study, the following conclusions were reached:

- (i) There is a significant relationship between board gender diversity and financial reporting quality. However, the study's finding documents a positive relationship between board gender diversity and financial reporting quality. This shows that board gender diversity has a greater impact on financial reporting quality of firms.
- (ii) Board size has a significant relationship with financial reporting quality. However, the study's finding documents negative relationship between board size and financial reporting quality. This shows that board size has a negative impact on financial reporting quality.
- (iii) Board independence has a significant relationship with financial reporting quality. While findings from this study present a positive significant

relationship between board independence and financial reporting quality. This implies that the board independence positively influences the financial reporting quality of firm.

- (iv) Similarly, ownership concentration has a significant relationship with financial reporting quality. While findings from this study present a positive significant relationship between ownership concentration and financial reporting quality. This implies that the ownership concentration positively influences the financial reporting quality of firm.

In addition, the overall results reinforce the study's general argument that awareness of corporate governance has increased. It also reveals that there is an improved awareness on the impact of corporate governance. In other words, investors are able to better interpret annual reports. They also have access to more information about the market. This study concludes that corporate governance has significant impact on financial reporting quality.

## **5.5 Recommendations and Policy Implications**

Based on the findings of this research, this study, therefore, presents the following recommendations which will be useful to all firms' stakeholders.

- i. The findings of the study reveal that board gender diversity has a positive significant with financial reporting quality. It is therefore recommended that management should implement diversity initiatives and policies to ensure a more inclusive board composition.
- ii. The findings of the research shows that board size has a negative significant relationship with financial reporting quality. It therefore recommends that management should assess the trade-offs between having a larger board with diverse expertise and a smaller board with more efficient decision-making. Also, they should consider potential downsizing efforts to streamline board operations and improve financial reporting quality.
- iii. The findings of the research shows that environmental disclosure has a significant negative relationship with financial performance. The study therefore recommends that managers should review board composition and governance structures to enhance independence, such as having a majority of independent directors. Also, they should Implement mechanisms to safeguard the independence of board members, such as regular assessments and disclosures of potential conflicts of interest.
- iv. The findings of the research shows that ownership concentration has a positive significant relationship with financial reporting quality. It therefore recommends that managers should ensure that concentrated ownership does

not lead to excessive influence or conflicts of interest that could compromise financial reporting quality.

## **5.6 Limitation of the Study**

The study observed a few limitations which could be a basis for future research. First, the sampled data comprise only 28 non-financial firms in the NXG. A larger sample size comprising financial may result in a more significant finding.

Secondly, this study ignored the joint combination of a quantitative and qualitative method to evaluate the impact of corporate governance and financial reporting quality. The study is only limited to secondary data which is quantitative in nature. The qualitative method can be useful in order to get feedback from other stakeholders regarding the corporate governance and financial reporting quality.

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## APPENDIX

	FRQ	BDSZ	BGD	BIND	OC
Mean	0.583334	6.875	0.462863	0.533714	0.554307
Median	0.63	7	0.5	0.6	0.54
Maximum	1.145	10	0.9	0.909	0.8417
Minimum	-0.991	4	0	0	0.25
Std. Dev.	0.261043	1.605334	0.200729	0.251651	0.104072
Skewness	-2.99313	0.32623	-0.46786	-0.33584	0.122378
Kurtosis	17.60029	2.395404	2.781699	2.085175	4.634554
Jarque-Bera	1743.027	5.538675	6.462636	9.016374	19.1217
Probability	0	0.062704	0.039505	0.011018	0.00007
Sum	98.00009	1155	77.76095	89.66387	93.1235
Sum Sq. Dev.	11.37996	430.375	6.728776	10.57582	1.808784
Observations	168	168	168	168	168

Covariance Analysis: Ordinary  
 Date: 05/18/24 Time: 17:04  
 Sample: 2018 2023  
 Included observations: 168

Correlation		FRQ	BDSZ	BGD	BIND	OC
t-Statistic						
Probability						
FRQ		1.000000 ----- -----				
BDSZ		-0.357133 -4.926197 0.0000	1.000000 ----- -----			
BGD		0.531623 8.086947 0.0000	-0.182943 -2.397523 0.0176	1.000000 ----- -----		
BIND		0.510041 7.639852 0.0000	-0.098260 -1.272145 0.2051	0.590291 9.422013 0.0000	1.000000 ----- -----	
OC		0.258810 3.452161 0.0007	0.105013 1.360515 0.1755	-0.187553 -2.460104 0.0149	-0.102895 -1.332784 0.1844	1.000000 ----- -----

Dependent Variable: FRQ  
 Method: Panel Generalized Method of Moments  
 Date: 05/18/24 Time: 17:06  
 Sample: 2018 2023  
 Periods included: 6  
 Cross-sections included: 28  
 Total panel (balanced) observations: 168  
 2SLS instrument weighting matrix  
 Instrument specification: BIND BGD BDSZ OC C

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BIND	0.312197	0.066774	4.675404	0.0000
BGD	0.484238	0.085647	5.653909	0.0000
BDSZ	-0.048867	0.008617	-5.671010	0.0000
OC	0.981172	0.133033	7.375400	0.0000
C	-0.015334	0.105449	-0.145415	0.8846
R-squared	0.560021	Mean dependent var		0.583334
Adjusted R-squared	0.549224	S.D. dependent var		0.261043
S.E. of regression	0.175264	Sum squared resid		5.006943
Durbin-Watson stat	1.342412	J-statistic		4.92E-24
Instrument rank	5			

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**UMUNNA KAOSISORCHUKWU**

**MGS1907798**

**DEPARTMENT OF ACCOUNTING  
FACULTY OF MANAGEMENT SCIENCES  
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EDO STATE**

**MAY, 2024**