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Board Independence and Board Gender Diversity on Financial Reporting Quality of Listed Consumer Goods Firms in Nigeria

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Abstract
The rising incidence of financial scandals and corporate failures has significantly eroded public confidence in organizational financial reports. Effective corporate governance, particularly through board composition, is seen as crucial for ensuring high-quality financial reporting. This study examines the effect of board independence and board gender diversity on the financial reporting quality of listed consumer goods firms in Nigeria from 2012 to 2022. Using an ex post facto research design, the study analyzed panel data from 17 listed consumer goods firms using pooled OLS regression. Financial reporting quality was measured using discretionary accruals based on the Modified Jones Model. The results indicate that board independence has a negative but insignificant effect on discretionary accruals, suggesting it improves financial reporting quality. Also, board gender diversity was found to have a negative but insignificant effect on discretionary accruals. The study concludes that while both board independence and board gender diversity are an effective mechanism for enhancing financial reporting quality in Nigerian consumer goods firms, their effects are not significantly evident. These findings contribute to the ongoing debate on corporate governance mechanisms in developing economies and have implications for policymakers and corporate boards. The study recommends that Nigerian consumer goods firms should maintain a higher proportion of independent directors and female directors on their boards to improve financial reporting quality, while further investigation is needed into the role that both attributes play in corporate governance.

Keywords: Board independence, Board gender diversity, Financial reporting quality, Discretionary accruals, Nigerian consumer goods firms

I. INTRODUCTION
The rising incidence of financial scandals and corporate failures, both nationally and internationally, has significantly eroded public confidence in organizational financial reports. Major scandals like FTX Trading Ltd. FTX which was a cryptocurrency exchange company, valued at $32 billion, collapsed in November 2022 and its founder, Sam Bankman-Fried, was arrested on charges of fraud and money laundering (Ledaux & Smaili, 2024). Enron and WorldCom in the United States, Parmalat in Italy, and Cadbury PLC and African Petroleum in Nigeria exemplify this trend. The drive by management to meet stakeholder and regulatory expectations has sometimes led to unethical accounting practices, such as earnings manipulations, which exaggerate a company's financial position to appear more favorable. Al-Khonain and Al-Deem (2020) noted that ineffective corporate governance and poor financial reporting were key factors in the bankruptcies of Enron, WorldCom, and Tyco. Effective corporate governance is thus essential in monitoring management and preventing bankruptcy (Nuraddeen & Kamardin, 2015). Corporate governance, through its mechanisms, aims to ensure prudent management of resources and high-quality financial reporting. Financial reporting communicates a firm's financial performance and condition to external users, and its quality is crucial for stakeholders' decision-making. In Nigeria, the collapse of several financial and non-financial institutions highlighted the need for robust corporate governance to prevent unethical financial practices (Paulinus *et al*., 2018). The International Financial Reporting Standards (IFRS) specify corporate governance indicators that influence financial reporting quality, such as board size, independence, and gender diversity (Zalata *et al*., 2017).

Earnings management, where managers manipulate financial reports to achieve personal or company goals, undermines the transparency and reliability of financial reporting. Weak regulatory

oversight in Nigeria exacerbates this issue, with studies indicating high levels of earnings manipulation among listed firms (Adeniyi & Mieseigha, 2013). The consumer goods sector is particularly vulnerable due to intense competition and market volatility (Omoye & Eriki, 2014). While corporate governance codes mandate audit committees and board independence to safeguard against misreporting, poor implementation remains a challenge (Financial Reporting Council of Nigeria, 2018). Existing research on the effect of board independence and board gender diversity on the financial reporting quality in Nigeria is limited, particularly in the consumer goods industry. The consumer goods industry has been a very competitive industry and there are diverse goods being produced. This study addressed this gap by investigating the effect of board independence and board gender diversity on financial reporting quality among listed Nigerian consumer goods firms. The hypotheses of the study are stated below:

Ho1: Board independence has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria.

Ho2: Board gender diversity has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria.

II. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Board Independence

Board independence refers to non-executive or outside directors on a board who are not affiliated with the company. Independent boards are believed to enhance monitoring and reduce earnings management (Kelton & Yang, 2008). Board independence is the absolute and unqualified autonomy of a corporate board from any prejudice, equally in action and manifestation, to put into effect its authority in fulfilling its constitutional role devoid of fear or favour. Corporate governance essentially necessitates that the board of directors be autonomous of management and the company (Hermanson, 2003). Independence can be realized by means of the insertion of fair-minded parties, that is, external directors, to boost the boards' aptitude to be extra resourceful in keeping an eye on the top management (Fama & Jensen, 1983). Studies suggest that independent directors can produce unbiased financial statements and improve financial reporting quality (Joseph & Ahmed, 2017). The presence of independent directors on the board oftentimes creates added value to a firm that usually leads to improved financial performance (Ameer et al., 2010). According to Fama and Jensen (1983), a board, with the majority of outside directors taking part in board decision-making, will better oversee the management and reduce likelihood of earnings management. The reason for this could be because the outside directors do not have so much stake in the company to encourage earnings management through discretionary accruals or real earnings manipulations. Rather, they have their integrity and personal reputation to protect. Board independence is measured as the percentage of independent non-executive directors to the total number of members in the board (Iraya et al., 2015). Board independence is calculated as follows:

$$\textit{Board Indpendence} = \frac{\textit{No of Non-executive directors}}{\textit{Total no of all directors}}$$

2.1.2 Board Gender Diversity

Board gender diversity is arguably the most debated topic in terms of diversity, not only in the world of corporate governance and earnings management but other societal grounds (Ahmad, 2021). This may not be unrelated to the recent push for gender equality across the globe. According to Arun et al. (2015), men and women differ in their cognitive frame due to the different norms, values and beliefs that they hold which are developed throughout their lifetime and influenced through social standards. Hence, they suggest that female gender is ethically sensitive and risk averse and are less likely to engage in earnings management and fraudulent activities to gain private benefit (Lakhal et al., 2015). They are more cautious and conservative in their decision making and are more likely to showcase conservative and restrained approaches to earnings management practices (Gull et al., 2018). Board gender diversity is measured as a percentage of female directors to the total number of all executive and non-executive board members combined. It advocates that the more females a company has on the board, the better financial reporting through improved monitoring and risk aversion. Board gender diversity is calculated thus:

$$\textit{Board gender diversity} = \frac{\textit{No of female directors}}{\textit{Total no of all directors}}$$

2.1.5 Financial Reporting Quality

The qualitative characteristics of financial information play a crucial role in ensuring the usefulness and reliability of financial reports. These characteristics are essential for stakeholders, such as investors, creditors, and regulators, to make informed decisions based on the financial statements provided

by companies. These characteristics are either fundamental or enhanced which include relevance, faithful representation, verifiability, understandability, comparability and timeliness.

According to Verdi (2006) financial reporting quality is the precision with which financial reporting conveys information about the firm's operations, in particular its expected cash flows, in order to inform equity investors. Schiller and Vegt (2010) argued that accounting quality has multiple dimensions. They used a two-dimensional concept: they first asked whether there is faithful representation that is if the earnings report is unbiased. If an earnings report is faithful, it leads to a better reflection of the shareholder value in the stock price. Secondly, they asked if the report is timely. If a manager has early financial information, the introduction of interim reporting leads to an increased timeliness if the information is disclosed at the interim stage rather than at the end of the fiscal year. To summarize, they defined accounting quality as improved if, for a given degree of timeliness, there is increased faithfulness or if, for a given degree of faithfulness, there is better timeliness.

Earnings Management through discretionary accruals affects the quality of financial reports. Faithful representation characteristic emphasizes that information presented in the financial reports must accurately reflect a company's resources, obligatory claims, transactions and cash flows. The information must be complete, neutral and free from any material errors. However, Management often attempts to influence or manipulate reported earnings by using specific accounting methods (or changing methods), recognizing one-time non-recurring items, deferring, or accelerating expense or revenue transactions, or using other methods designed to influence short-term earnings (Akers *et al*., 2007)

2.1.6 Modified Jones Model Earnings Management

The Modified Jones model adjusts the original Jones model (1991) to improve detection of earnings management through discretionary accrual (Dechow et al., 1995). A key refinement is removing credit sales from the change in revenue used to calculate non-discretionary accruals. This help to address the concern that managers can manipulate earnings by exercising discretion over recognition of credit sales (Dechow & Dichev, 2002). Thus, the Modified Jones model subtracts the change in receivables from the change in revenue, with the difference representing cash revenue. This cash revenue measure now excludes potential earnings manipulation from discretionary credit sales that inflated non-discretionary accruals in the original Jones specification (Dechow et al., 1995).

Consequently, the Modified Jones model provides cleaner estimates of non-discretionary accruals driven purely by operational activity without embedded earnings management through revenue recognition choices (Young, 1999). This results in more precise estimates of discretionary accruals attributable purely to accounting decisions that deviate from normal business operations. The refined Modified Jones model has become widely adopted in the literature to empirically proxy for and detect period-specific earnings management through income-increasing or income-decreasing discretionary accrual choices (Dechow et al., 2010). It remains among the most powerful models to uncover evidence consistent with opportunistic earnings manipulation behaviour by managers. The Modified Jones Model as stated by Dechow (1995) is presented below:

$$\frac{TA_{it}}{A_{it-1}} = \beta_0 + \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{it-1}} + \beta_2 \frac{PPE_{it}}{A_{it-1}} + \varepsilon_{it}$$

Where **TA** is total accruals computed as the change in non-liquid current assets, minus the change in current liabilities, plus the change in short-term bank debt, minus depreciation; **ΔREV** is the change in revenue from year ***t-1*** to ***t***; **ΔAR** is the change in Account Receivables from year ***t-1*** to ***t*** , PPE is the property, Plant & Equipment; and **A*-1*** is the lagged total assets; ***i*** is the individual firm; *t* represents the time-period; ***β*** is the estimated parameter, while ***ε*** represents the error term. The residuals from the above equation are contemplated as discretionary accruals.

2.1.7 Firm size

Firm Size is related to the scale of the company. The larger the company is, the bigger opportunity to earn large earnings, so that companies with large sizes translate to high performance (Frank & Dang, 2015). In accounting, one measure of firm size is natural logarithms (Ln) of Total Assets (Oghodo, 2015). The size of the company is always related to the opportunity to increase revenue, the larger the size of the company, the greater the opportunity to earn large income, and vice versa, including opportunities to carry out earning management activities (Ronen & Yaari, 2008). The larger the firm size is, the more opportunity to increase earning management activities.

Firm size has been considered to be a control variable due to several reasons such as political costs, which occur in large enterprises faced with political processes, that may have greater effect on business compared to a small one (Watts & Zimmerman, 1986). Thus, it is more likely to manage earnings in large firms, compared to a small business, to avoid pressure. However, on the surface, the reason earnings management of a large business appears to be lower than a small business is because of a larger capital base that provide shield for manipulations perpetrated. Enough personnel that can clearly be appointed for operations and a decent internal control will help to amend the data. Total asset is used as a measure of firm size calculated from the natural log of total assets as shown below:

$LOGFSIZE_{it} = \log(A_{it})$

Where **log** is the Natural Logarithms, **A** is Total Assets, ***i*** is the individual firm; *t* represents the time-period

2.2 Empirical Review

Tawfik et al. (2023) examined the impact of board diversity on financial reporting quality with special consideration of the extent to which family and royal directors influence financial reporting quality (FRQ). The study utilizes a sample of 181 listed Gulf Cooperation Council (GCC) firms over the period from 2010 to 2016. Board personal attributes, including board expertise, age, gender, and nationality are investigated along with some other board issues such as board size, meetings, and independence. Panel data analysis with fixed and random effect models are conducted to estimate the results. The results reveal that companies with large board size and greater age have less FRQ. Further, the results report that institutional founders, higher board independence, and expertise associate with greater levels of FRQ. The results also find that board meetings and family founders negatively influence FRQ. However, female directors, foreign directors, and royal board members sitting on the board did not contribute to the levels of FRQ in the sampled companies. Finally, the results indicated that companies with a CEO royal member have higher levels of FRQ while companies with chair board royals have less levels of FRQ. Hence, the study recommended GCC companies need to consider both board independence and expertise in the board composition of their companies. More provisions and regulations regarding board independence and expertise should be incorporated in corporate governance codes. The inclusion of various board attributes and personal characteristics contributes to a comprehensive analysis. However, the study's findings, such as the negative influence of board size and the mixed impact of royal board members on financial reporting quality, prompt further exploration into the underlying mechanisms and potential contextual factors shaping these relationships. Additionally, the non-contributory role of female directors and foreign directors challenges conventional expectations, emphasizing the need for a deeper understanding of the dynamics of board diversity in the GCC context.

Ibrahim et al. (2023) examined the effect of board diversity, audit committee and earnings management of oil and gas (O & G) companies listed in Nigeria stock exchange. Female directors and foreign directors served as proxies for board diversity, audit committee independence and meeting frequency were moderating variables to study possible discretionary accruals in earnings. Eleven O & G companies in Nigeria that were listed that had consistently produced audited yearly financial reports from 2009 to 2019 were employed to accomplish the study's goals. Regression models with fixed and random effects were utilised in the investigation. The outcome showed that earnings management and the board diversity of listed O & G companies in Nigeria was moderated by the audit committee. The findings suggested that Nigerian-listed oil and gas businesses should give a gender quota for female directors. The study recommended that regulators consider the number of meetings that audit committees hold, as it is the members' intelligence to comprehend the financial ramifications of management decisions rather than meeting frequency that determines the monitoring of managers' opportunistic attitudes. However, the limited sample size of eleven companies and the exclusive focus on a specific industry may affect the generalizability of the findings to a broader corporate landscape.

Elzahar et al. (2022) investigated the impact of female monitoring directors' tenure and busyness on mitigating managerial opportunistic behaviour, which is based on the notion that female directors are superior in monitoring and informed by a theoretical framework that draws insights from agency, resource dependence, and upper echelon theories. The study applied a sample of US firms over the period from 1998 to 2014. In line with the theoretical foundation, results demonstrated that both long tenure and more directorships have a positive impact on female directors monitoring competency. Regression analytical was used for the analysis. The finding is supported by the further analysis considering the impact of the Sarbanes-Oxley act on the association between monitoring female directors' attributes and

earnings management practices. Accordingly, the study concluded that there are levels of influence of different attributes of female monitoring directors on their monitoring competency. It was therefore recommended that decision makers should engage more in recruiting female directors that can better enhance monitoring effectiveness of corporate boards. Elzahar et al. (2022) investigation into the impact of female monitoring directors' tenure and busyness on mitigating managerial opportunistic behavior offers valuable insights, yet the study's focus on a specific time period and geographical location (US firms from 1998 to 2014) may limit the generalizability of its findings to diverse corporate contexts and eras.

Khan et al. (2022) examined the effect of the board of directors' related clauses such as independence, female director, CEO duality and the expertise of director included in the Code of Corporate Governance 2017 (CCG-2017) on earnings management with the pre- and post-CCG-2017 analysis. The study used the sample of 323 non-financial listed firms of the Pakistan Stock Exchange from 2015 to 2019. Data was manually collected from companies' annual reports, and two proxies of earnings management were used: one is discretionary accruals and the other is real activity manipulation. The results of the study show that as compared to the pre-period of CCG-2017 in the post-period of CCG-2017 board independence, expertise and female inclusion has increased significantly. Moreover, board independence and financially expert directors are negatively related to discretionary accruals, while there is a positive relationship of female directors with discretionary accruals, which is also same for real activity manipulation. The findings also show that there is no relationship of board independence/outside directors and expert directors with real activity manipulation. The study recommended the CCG-2017 reforms be introduced by the regulator. Moreover, it was recommended that the regulator needs to augment the authentic independence of independent/outside directors in listed firms (concentrated ownership context) of Pakistan. While the study focused on the effects of board characteristics as per the CCG-2017, there could be other factors such as ownership structure, audit committee characteristics, or internal control systems that may also play a role in mitigating or exacerbating earnings management activities. Failing to account for these additional factors could lead to omitted variable bias and potentially incomplete or biased findings.

Arshad et al. (2022) investigated the impact of corporate governance on financial reporting quality (FRQ) in Pakistan and the UK. The study employed three accrual-based models to analyse FRQ for a sample of 1,550 firm-year observations, including 78 Pakistani firms and 77 UK firms, for the period 2009–2018. Analysis of data showed that board size has a negative impact on FRQ while foreign ownership has a positive impact for Pakistani and UK firms. It also showed that board independence has a positive impact on FRQ of Pakistani firms, while board meetings frequency and audit committee independence have a negative impact. Also, analysis showed that board gender diversity and ownership concentration negatively affect FRQ of UK firms. The study however concluded that the impact of board composition on FRQ of both Pakistani and UK firms is weak. The findings suggested that board size and foreign ownership are the attributes that require regulatory focus to increase FRQ. It was recommended that since negative impact of audit committee independence on FRQ induces rethinking among the policymakers in Pakistan there should be a call for fully independent audit committees. The contradictory effects of board independence, board meetings frequency, and audit committee independence in the Pakistani context underscore the complexity of these relationships and suggest a need for refinement of regulatory considerations. While the study extensively analyzed the impact of board attributes and ownership structure on FRQ, it seems to have focused primarily on these internal corporate governance factors. However, financial reporting quality can also be influenced by external factors, such as the regulatory environment, industry characteristics, and macroeconomic conditions, which appear to have been overlooked in the study.

Bansal (2022) investigated earnings management practices among family firms in India. The study considered the moderating effect of board independence on the relationship between family firms and earnings management. The study used a dataset of 26962 firm-year observations drawn from 2074 Bombay Stock Exchange (BSE) listed firms, spanning over 13 years from 2005 to 2017. The study used absolute discretionary accruals as a proxy of earnings management, estimated using the modified Jones model and regression analytical tool was used. Empirical results showed that, on average, family firms are less likely to be engaged in earnings management in comparison to their non-family counterparts. Results showed that the proportion of independent directors (CEO duality) has a liberating (constraining) effect on earnings management. However, in family firms, both the proportion of independent directors and CEO duality has a

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liberating effect on earnings management. Based on the findings, the study recommended that investors have a comprehensive review of financial statement items while using earnings multiple for their portfolio valuation. Also, board independence is important for an emerging market in widely held firms to mitigate earnings management practices. Therefore, any recommendations for corporate laws and governance practices should be sensitive to the unique characteristics and dynamics of the Vietnamese business environment. This consideration ensures that proposed regulations align with the local context, enhancing the likelihood of successful implementation and fostering sustainable improvements in corporate governance practices.

Ahmad (2021) investigated the impact of diversity in board characteristics and earnings management practices in the UK. In addition, he examined the role of internal audit function as a moderator. Using corporate governance theories including agency, stakeholder and upper echelon theory, three key functions of board were presented including monitoring, mediating and advising roles. Board gender diversity, board director independence, board size, board financial skills were employed. Further, internal audit function was applied as a moderator to assess if the interaction between board characteristics and internal audit function influences this relationship. Pooled OLS, fixed effects and random effects were applied using a sample size of 3190 firm-year observations for 10 years, from 2010 to 2019. Results reveal significant relation between board characteristics except for board size. Including the moderating effect of audit quality only influence board gender diversity and board independence. The study recommended that regulators, governments and corporate councils should get an indication of corporate governance structure and its relationship with earnings management with the addition of also investigating these relations using internal audit functions. However, the study's focus on a specific geographic location and the limited consideration of the moderating effect on certain board characteristics may limit the generalizability of its findings.

Damak (2018) investigated the influence of board gender diversity on earnings management level and strategy. The study was conducted in the French context where firms are pressured since 2010 to appoint more women on boards. More specifically, the study was based on a sample of 85 companies listed in the SBF120 over 2010-2014. A number of econometric techniques are used including generalized least squares to test the panel regressions. The results suggested that women on boards are effective in their monitoring role. Indeed, the findings showed a significant negative effect of board women presence on earnings management practices level. However, there is no empirical evidence that board gender diversity affects the earnings management strategy. Moreover, the results revealed that some control variables significantly influence the earnings management level and strategy. It was concluded that there are benefits accruing to having women in decision making positions in an organization. Hence, the study recommended that women participation on the board should be highly encouraged through the recruitment of more women to director cadre. however, the study's narrow focus on a specific country and limited consideration of the impact on earnings management strategy may limit the generalizability of its findings to broader contexts.

Xiong (2016) investigated whether the managerial characteristics of Chairman affect earnings management. Using a large sample of Chinese listed companies during period from 2005 to 2014. Using McNichols accrual-based and Roychowdhury real earning management, the study found that companies with female, long-tenured, older and more educated Chairman have lower absolute discretionary accruals and lower real earnings management after controlling other factors that prior research has shown to be associated with earnings management. The results suggested that Chinese listed companies can improve earning quality by appointing more female, experienced, and educated chairmen, as well as increasing the tenure of Chairman. While Xiong (2016) study offers valuable insights into the impact of Chairman characteristics on earnings management in Chinese listed companies, potential limitations include the exclusive focus on Chinese firms, which may limit the generalizability of the findings to a more diverse global context, and the reliance on specific measures of earnings management, which may not capture the full spectrum of managerial opportunistic behavior.

2.3 Theoretical Framework

2.3.1 Resource-Based Theory (RBT)

Jay Barney, 1991 (extended by Hambrick, 2008) developed Resource-Based Theory (RBT). This theory suggests that organizations with diverse boards bring varied resources, skills, and perspectives, which enhance firm performance and governance. It posits that internal resources are critical to gaining a competitive advantage (Barney, 1991). Supporters argue that diversity in the boardroom leads to better decision-making, innovation, and improved performance due to the varied perspectives and expertise (Hambrick, 2008). Critics highlight potential challenges such as

communication barriers, conflicts, and longer decision-making processes that can arise from increased diversity (Milliken & Martins, 1996). RBT is applied in corporate governance to emphasize the strategic importance of having a diverse board that can provide a broader range of knowledge, skills, and experiences (Barney, 1991). RBT is relevant as it underscores the benefits of board gender diversity in improving financial reporting quality by leveraging the unique perspectives and skills of female directors in Nigerian consumer goods firms.

2.3.2 Stewardship Theory

Donaldson and Davis, 1991 develop stewardship theory. This theory proposes that managers are stewards of the company, inherently motivated to act in the best interests of the shareholders. It emphasizes trust and the alignment of managerial and shareholder interests (Donaldson & Davis, 1991). Proponents argue that managers, when trusted and given autonomy, will act responsibly and ethically, leading to better organizational outcomes (Davis *et al*., 1997). Critics suggest that stewardship theory may be overly idealistic, if all managers will inherently act in the best interest of the shareholders, which may not always be the case (Jensen & Meckling, 1976). Stewardship theory is applied in governance models that advocate for empowering managers with more autonomy and fostering a culture of trust and collaboration (Davis *et al*., 1997). Stewardship theory is relevant as it provides an alternative view of managerial behavior, suggesting that effective board oversight can enhance financial reporting quality by fostering a culture of responsibility and ethical behavior among managers.

2.3.3 Agency Theory

Michael Jensen and William Meckling, 1976 propounded agency theory. This theory posits that there is an inherent conflict of interest between managers (agents) and shareholders (principals). Managers may pursue their own interests rather than those of the shareholders, leading to agency problems (Jensen & Meckling, 1976). Proponents argue that mechanisms such as independent directors and gender-diverse boards can help align management actions with shareholder interests by providing effective monitoring and reducing opportunistic behaviors (Fama & Jensen, 1983). Critics contend that agency theory oversimplifies the relationships within firms and that the assumption of inherent conflict may not always hold true. They argue that other factors, such as trust and cooperation, can also play significant roles in organizational dynamics (Davis *et al*., 1997). In corporate governance, agency theory is applied to design mechanisms that mitigate agency problems, such as board independence, executive compensation, and ownership structures (Shleifer & Vishny, 1997). Agency theory is relevant as it explains the need for independent and diverse boards to ensure that financial reporting is accurate and unbiased, protecting shareholder interests in Nigerian consumer goods firms.

Agency theory is chosen to underpin this study because it directly addresses the conflict of interest between managers and shareholders, which is a critical issue in financial reporting quality. The theory provides a framework for understanding how independent directors and gender-diverse boards can act as mechanisms to mitigate agency problems, ensuring that managers act in the best interests of the shareholders. This is particularly relevant in the context of Nigerian consumer goods firms, where robust governance mechanisms are essential to enhance the integrity and reliability of financial reports (Jensen & Meckling, 1976; Fama & Jensen, 1983). By leveraging agency theory, this study investigated how board independence and gender diversity contribute to improved financial reporting quality, thereby providing practical insights for policymakers and corporate governance practitioners in Nigeria.

III. METHODOLOGY

The study adopts ex post facto research design to evaluate the effect of board independence and board gender diversity on financial reporting quality using panel data analysis. Statistical methods were employed to analyze numerical data and draw objective conclusions. The ex post facto design is appropriate for after event studies, because secondary data were used from the financial statements of listed consumer goods firms in Nigeria.

The population is twenty-one (21) listed consumer goods firms in Nigeria, with a sample of seventeen (17) based on data availability and remained listed during the period of study. Secondary data were collected from the financial statements of the sampled consumer goods firms listed on the Nigeria Exchange Group, focusing on board independence, board gender diversity and financial reporting quality indicators.

The study adapted the Modified Jones Model Earnings Management model from Arshad *et al*. (2022) to measure the degree of earnings manipulation and how it affects the quality of financial reporting of listed consumer goods firms in Nigeria as stated below:

$DCA_{it} = \beta_0 + \beta_1 BI_{it} + \beta_2 BGD_{it} + \beta_3 FS_{it} + \mathcal{E}_{it}$……………..……………………….(3.1)

Where,
DCA = Discretionary Accruals = Modified Jones Model Earnings Management
BI = Board Independence
BGD = Board Gender Diversity
FS = Firm size
β_0 - β_{it} = coefficient of the regression.
i = number of multinational companies
t = number of years
Ɛ = Error term

The a priori expectations of the study are that both board independence and board gender diversity should have a negative significant effect on Discretionary Accruals suggesting increase in both governance mechanisms improves financial reporting quality of listed consumer goods firms in Nigeria.

Table 3. 1: Variables and their Measurement

Symbol	Variable	Measurement
	Dependent variables	
DCA	Modified Jones Model Earnings Management	$\frac{TA_{it}}{A_{it-1}} = \beta_0 + \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{it-1}} + \beta_2 \frac{PPE_{it}}{A_{it-1}} + \varepsilon_{it}$ (Arshad *et al*., 2022).
	Independent/Control variables	
BI	Board Independence	Percentage of non-executive directors to total board size (Joseph & Ahmed, 2017).
BGD	Board gender diversity	Percentage of female directors to total board size (Saona *et al*., 2019).
FSIZ	Firm size	natural logarithm of Total asset (Xie *et al*., 2003).

Source: *Author's Compilation (2024)*

IV. RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 below presents the result of the Mean, Standard Deviation, Minimum, and Maximum values of the study variables (discretionary accruals, board independence, board gender diversity firm size and leverage). These statistics provide a snapshot of the central tendency (mean), dispersion (standard deviation), and range (min and max) for each variable, giving an insights into the distribution and characteristics of the data. The results are interpreted below

Table 2 Descriptive statistics for dca bi bgd fsize

```
. summarize dca bi bgd fs

    Variable |        Obs        Mean    Std. Dev.       Min        Max
-------------+---------------------------------------------------------
         dca |        187    .1727807     .301708          0       2.67
          bi |        187    .5361828    .1518853        .27        .92
         bgd |        187    .2512834    .1774959          0        .71
          fs |        187    10.43701    .9887222       7.76      11.79
```

Source: STATA 16 output Results (2024)

Table 2 shows that the average discretionary accruals, (DCA) of listed consumer goods firms in Nigeria was 0.1728 with a standard deviation (SD) of 0.3017 which shows the variability or spread of DCA values around the mean. The SD of 0.3017 is an indication that the DCA of the sampled firms deviate from both sides of the mean by 0.3017, which means that the data is not widely dispersed from its mean. The DCA also has a minimum and maximum value of 0 and 2.67 respectively. The Table also shows that the average board independence (BI) of the listed consumer

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goods firms in Nigeria was 0.5362 with the variability or spread of BI values around the mean of 0.1519 representing its Standard Deviation (SD), implying that BI deviates from both sides of the mean by 0.1519. The smallest and largest values of BI are 0.27 and 0.92 respectively
Furthermore, the average value for board gender diversity (BGD) of the sampled consumer goods firms for the study period was 0.2523 with an SD of 0.1774 indicating that BGD deviate from both sides of the mean by 0.1774 implying that the data is not widely dispersed from the mean. The BGD also has a minimum and maximum values of 0 and 0.71 respectively implying some of the companies for some years do not have female on their board. Similarly, Table 2 shows that the firm size (FSIZE) of the sampled firms has an average of 10.4370 with an SD of 0.9887 which implies that FIZE deviates from both sides of the mean by 0.9987, meaning that the data is widely dispersed from the mean. The minimum and maximum value of FSIZE were 7.76 and 11.79 respectively.

Correlation Matrix

Pearson pairwise correlation matrix contains correlation coefficients of the variables under the study. These correlation coefficients provide insights into the strength and direction of linear relationships between pairs of variables. A positive correlation indicates that as one variable increases, the other tends to increase, while a negative correlation suggests that as one variable increases, the other tends to decrease. The magnitude of the correlation coefficient indicates the strength of the relationship, with values closer to 1 or -1 indicating stronger relationships. Table 3 below shows the results of the association between discretionary accruals, board independence and board gender diversity with firm size as a control variable.

Table 3 Results of correlation analysis for dca bi bgd fsize

```
. correlate dca bi bgd fs
(obs=186)
             |      dca       bi      bgd       fs
-------------+------------------------------------
         dca |   1.0000
          bi |  -0.0699   1.0000
         bgd |  -0.1106  -0.0612   1.0000
          fs |  -0.3166   0.0866   0.1504   1.0000
```

Source: STATA 16 output Results (2024)

The result in table 3 shows a weak negative correlation of -0.0699, and -0.1106 between discretionary accruals (DCA), board independence (BI) and board gender diversity (BGD) respectively. The results also showed a negative association of -0.3166 between discretionary accruals and the control variable, firm size (FS). This implies that ceteris paribus a unit increase in BI, BGD and FS will lead to 0.0699, 0.1106, 0.3166 units decrease in DCA respectively and vice versa. The table also revealed a weak negative correlation of 0.0612 between BGD and BI and a weak positive correlation of 0.0866 and 0.1504 respectively between and BI and FSIZE, and BGD and FSIZE, which implies that as FS increases, there is a tendency for BI and BGD to increase.

Multicollinearity Test

Variance Inflation Factor (VIF) is a measure of how much the variance of an estimated regression coefficient increases if the predictors are correlated. VIF is used to measure multicollinearity test. Generally, a high VIF indicates potential multicollinearity, which can lead to unreliable regression coefficient estimates. Table 4 below shows the Variance Inflation Factor (VIF) for each variable in the regression model.

Table 4 Results of VIF Test (Multicollinearity Test)

```
. estat vif

    Variable |       VIF       1/VIF
-------------+----------------------
          fs |      1.03    0.968176
         bgd |      1.03    0.971835
          bi |      1.01    0.986876
```

```
-------------+----------------------
    Mean VIF |      1.03
```

Source: STATA 16 output Results (2024)

The result revealed a VIF of 1.03, 1.03 and 1.01 for FS, BGD and BI respectively which is relatively low and a corresponding 1/VIF of 0.9682, 0.9718 and 0.9869 indicating that about 96.82%, 97.18% and 98.69% of the variance in the estimated coefficient for FS, BGD and BI is not due to multicollinearity. The mean VIF which is calculated as the average of the individual VIF values for all variables in the model is 1.03, which is quite low which indicates that, on average, there is a low level of multicollinearity in the model. Overall, the VIF values are low, suggesting that there is no severe multicollinearity among the predictor variables in the regression model. This is a positive result, as multicollinearity can make it challenging to interpret the individual contributions of predictors to the dependent variable. The low VIF values indicate that the variance in the estimated coefficients for each variable is mostly independent of the other predictors, contributing to the stability and reliability of your regression results.

Hausman Test

The Hausman specification test is commonly used to assess the presence of endogeneity in a regression model, particularly in the context of choosing between fixed effects (FE) and random effects (RE) models. The test helps determine whether the differences in the coefficients estimated by the two models are statistically significant, indicating the presence of endogeneity.

Table 5: Results of Hausman test

```
. hausman fe re
                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-
V_B))
             |       fe           re         Difference          S.E.
-------------+--------------------------------------------------------------
---
         bgd |    .0573422    -.1092482        .1665904        .2279755
          bi |   -.0889079    -.0933033        .0043954        .1858178
          fs |    .1135695    -.0919779        .2055474        .0910146
----------------------------------------------------------------------------
---
                           b = consistent under Ho and Ha; obtained from
xtreg
            B = inconsistent under Ha, efficient under Ho; obtained from
xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        6.08
                Prob>chi2 =      0.1079
```

Source: STATA 16 output Results (2024)

The high p-value of 0.1079, which is greater than 5% provides evidence for rejecting the alternative hypothesis implied by the Hausman test. In the context of the Hausman test, the null hypothesis typically states that the coefficients from the model are consistent and efficient, implying that there is no endogeneity. The results of the Hausman test indicate that there is no evidence of endogeneity in the model. The rejection of the alternative hypothesis implies that the random effects model is more efficient than the fixed effects model

Breusch Pagan and Lagrangian multiplier test for random effects

Table 6 below present the result of Breusch and Pagan Lagrangian multiplier test for random effects which was used to determine between pooled OLS and random effect regression which is most appropriate. The null hypothesis of the LM test states that pooled OLS regression is most appropriate while the alternative hypothesis states that random effect regression is most appropriate. The decision rule is to accept the null hypothesis if the p value is greater than 0.05 if otherwise reject the null

Table 6: Breusch Pagan and Lagrangian multiplier test for random effects

```
. xttest0
Breusch and Pagan Lagrangian multiplier test for random effects
        dca[cross,t] = Xb + u[cross] + e[cross,t]
        Estimated results:
                         |       Var     sd = sqrt(Var)
                ---------+-----------------------------
                     dca |   .0913084       .3021728
                       e |   .0806111       .2839209
                       u |   .0012864       .0358665
        Test:   Var(u) = 0
                             chibar2(01) =     0.11
                          Prob > chibar2 =   0.3718
```

Source: STATA 16 output Results (2024)

The LM test showed a chi2bar of 0.11 and a corresponding probability value of 0.3718 which is greater than 0.05 which suggests that there is enough evidence to accept the null hypothesis and conclude that pooled OLS regression is most appropriate.

Heteroskedasticity Test

The Breusch-Pagan / Cook-Weisberg test for heteroskedasticity is used to assess whether there is evidence of heteroskedasticity in the error terms of the pooled OLS regression model across different groups. In other words, whether the data have unequal variance. The null hypothesis (H0) assumes that the variance of the errors is the same for all groups, while the alternative hypothesis suggests that there are differences in variances among the groups. The decision rule is to accept the null hypothesis if the P value is greater than 5% (0.05), otherwise accept the alternative hypothesis if the P value is less than 5% (0.05). Table 7 Presents the result of Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Table 7 heteroskedasticity test

```
. estat hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of dca

         chi2(1)      =   201.50
         Prob > chi2  =   0.0000
```

Source: STATA 16 Output Results (2024)

Since the probability associated with the chi-squared value of 201.50 (Prob > chi2) is very close to zero (0.0000), the study rejects the null hypothesis. This low p-value indicates that there is strong evidence against the assumption of equal variances across all groups. In other words, there is heteroskedasticity in regression model. This result suggests that the variability of the errors differs significantly across the groups included in the model and this can impact the efficiency and reliability of the estimated coefficients. This problem was corrected by running a pooled OLS regression with robust standard errors. These adjustments help account for the potential heteroskedasticity and provide more accurate standard errors for hypothesis testing.

Test for Autocorrelation

The test for autocorrelation in panel data which is used to test for the presence of first-order autocorrelation in the residuals of the panel data regression model. Autocorrelation occurs when there is a correlation between the error terms of a regression model at different time points for the same cross-sectional unit. The null hypothesis of this test is that there is no serial correlation while the alternative hypothesis is that there is serial correlation. The decision rule is to accept the null hypothesis if the P value is greater than 0.05 %, otherwise accept the alternative hypothesis if the P value is less than 5% (0.05). Table 8 shows the results of the Wooldridge test for autocorrelation test in panel data.

Table 8: Test for Autocorrelation in Panel Data

```
. xtserial dca bgd bi fs
Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
    F(  1,      16) =      6.996
           Prob > F =      0.176
```

Source: STATA 16 Output Results (2024)

The results of the Wooldridge test in table 8 above shows test statistics of 6.996 with a corresponding p value of 0.176 which provide strong evidence that there is no first-order autocorrelation in the residuals of the panel data regression model.

Regression Results (Robust)

Table 9: Regression results

```
. xtreg dca bgd bi fs, re vce(robust)
Random-effects GLS regression                   Number of obs      =
187
Group variable: cross                           Number of groups   =
17
R-sq:  within  = 0.0053                         Obs per group: min =
10
       between = 0.6497                                        avg =
10.9
       overall = 0.1065                                        max =
11
                                                Wald chi2(3)       =
10.98
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =
0.0118

                                 (Std. Err. adjusted for 17 clusters in
cross)
---------------------------------------------------------------------------
---
             |               Robust
         dca |      Coef.   Std. Err.      z    P>|z|     [95% Conf.
Interval]
-------------+-------------------------------------------------------------
---
         bgd |  -.1092482   .0831611    -1.31   0.189    -.2722411
.0537446
```

```
          bi |  -.0933033   .1015924    -0.92   0.358    -.2924208
.1058142
          fs |  -.0919779     .02843    -3.24   0.001    -.1476997   -
.0362561
       _cons |   1.210528   .3325205     3.64   0.000     .5587997
1.862256
-------------+----------------------------------------------------------------
---
     sigma_u |  .03586655
     sigma_e |  .28392087
         rho |  .01570756   (fraction of variance due to u_i)
------------------------------------------------------------------------------
---
```

Source: STATA 16 Output Results (2024)

The F statistics of 10.98 and a corresponding Prob.>F of 0.0118 and an overall R-squared value is 0.1065, indicating that the model explains about 10.65% of the variance in the dependent variable. This indicates that the model is fit to explain the relationship expressed in the study. The nature and extent of the relationship between the dependent variable and each of the independent variables of the study in terms of coefficients, t-values, and p- values are explained further:

Ho_1; board independence has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria

According to the results in table 9, board independence (BI) of the sampled listed consumer goods firms during the study period has a negative relationship with discretionary accruals implying an improvement in financial reporting quality as explained by the coefficient of -0.0933. This means that for every unit increase in BI, discretionary accruals (DCA) decreases by 0.0933 units and hence improves financial reporting quality by the same units. However, the results revealed that BI of the sampled firms has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria. This was supported by a t-value of -0.92 and a corresponding P-value of 0.358 which is statistically not significant at 5%. As a result, the study has no reason to reject the null hypothesis and the alternative hypothesis stands rejected resulting in the conclusion that board independence has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria.

Ho_2: board gender diversity has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria

The results in table 9 revealed that board gender diversity (BGD) of the sampled listed consumer goods firms during the study period has a negative relationship with discretionary accruals implying an improvement in financial reporting quality as explained by the coefficient of -0.1092. This means that for every unit increase in BGD, discretionary accrual (DCA) decreases by 0.1092 units hence improves financial reporting quality by the same units. The results also revealed that BGD of the sampled firms has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria. This was supported by a t-value of -1.31 and a corresponding p-value of 0.189 which is statistically not significant at 5%. As a result, the study rejected the alternative hypothesis and accepted the null hypothesis, resulting in the conclusion that board gender diversity has a no significant effect on financial reporting quality of listed consumer goods firms in Nigeria

V. Discussion of Findings

This study examined the effect of board independence and board gender diversity on financial reporting quality of listed consumer goods firms in Nigeria. Therefore, the findings of this study are based on formulated hypotheses, models and analysis carried out. The a priori expectations were that both board independence and board gender diversity should have a negative significant effect on Discretionary Accruals suggesting improvement in financial reporting quality of listed consumer goods firms in Nigeria.

The study found out that at the level of significance of 5% (0.05) board independence of the sampled listed consumer goods firms in Nigeria during the study period has a negative relationship with discretionary accrual which translates to enhancement in financial reporting quality as explained by the coefficient of -0.0933. This means that for every unit increase in BI, discretionary accruals (DCA) decrease by 0.0933 units and hence improves financial reporting quality by same units.

However, the results revealed that BI of the sampled firms has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria. This was supported by a t-value of -0.92 and a corresponding P-value of 0.358 which is statistically not significant at 5%. As a result, the study rejected the null hypothesis and accepted the alternative hypothesis, resulting in the conclusion that BI has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria. The results are similar to those of Khan et al (2022), who discovered that BI has no significant effect on financial reporting quality. Although Khan et al (2022) measured financial reporting quality using real earnings manipulation and used fixed effect regression while the current study measured financial reporting quality using discretionary accruals (DCA) with OLS regression as the technique for data analysis, the results are the same. The results were in direct opposite to that of Tawfik (2023) who also found that BI has significant effect on financial reporting quality.

The a priori expectation is that the Board Independence should have a negative significant effect on Discretionary Accruals. This study found a negative but insignificant effect of board independence on discretionary accruals. This agrees with the agency theory that emphasizes having more independent directors on the board, can help to control the opportunistic behaviour of managers.

Similarly, the study found out that at the level of significance of 5% (0.05) board gender diversity of the sampled listed consumer goods firms in Nigeria during the study period a negative relationship with discretionary accruals implying an improvement in financial reporting quality as explained by the coefficient of -0.1092. This means that for every unit increase in BGD, discretionary accrual (DCA) decreases by 0.1092 units hence improves financial reporting quality by same units. The results also revealed that BGD of the sampled firms has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria. This was shown by a t-value of 1.31 and a corresponding p-value of 0.189 which is statistically not significant at 5%. As a result, the study rejected the alternative hypothesis and accepted the null hypothesis, resulting in the conclusion that BGD has no significant effect on financial reporting quality of listed consumer goods firms in Nigeria. The results are similar to those of Tawfik et al, (2023) who also found that BGD has no significant effect on financial reporting quality. The results were in direct opposite to those of Ibrahim et al (2023), Danak (2018) Xiong (2016) and Lakhal et al (2015) who discovered that BGD has significant effect on financial reporting quality. The inconsistency in the findings was because of the difference in the tool of analysis. Ibrahim et al (2023), Danak (2018) Xiong (2016) and Lakhal et al (2015) used panel GLS regression while the current study measured financial reporting quality using discretionary accruals (DCA) used OLS regression as the technique for data analysis.

Also, the a priori expectation suggests a significant negative relationship between board gender diversity and discretionary accruals. The results found a negative but insignificant effect of board gender diversity on discretionary accruals. This suggests that the presence of more female directors on the board positively influences the quality of financial reporting to an extent. This also confirms the position of agency theory, which encourages a more diverse board to ensure financial reports are of high quality.

VI. CONCLUSION AND RECOMMENDATION

Specifically, the study concluded that board independence and board gender diversity have negative insignificant effects on financial reporting quality of listed consumer goods firms in Nigeria. This depicts that progressive increase in board independence and having more female directors bring about decrease in discretionary accruals of consumer goods firm in Nigeria and that a unit increase in the number of independent directors and female directors leads to decrease in discretionary accruals and ultimately improvement in financial reporting quality. Based on the findings of this study, the following recommendations were made:

i. Listed consumer goods firms should ensure that the number of non-executive directors on their boards is more than those of executive directors as the independence brought by the non-executive directors improves the quality of financial reporting to an extent.

ii. Listed consumer goods firms in Nigeria should increase the number of female directors in the board as this will reduce earnings management through discretionary accruals and improve the quality of financial reporting.

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