


Impact of Board Diversity on Financial Reporting Quality: Evidence from Nigeria

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ARTICLE DETAILS	ABSTRACT
<p>History Received: March 06, 2024 Revised: June 06, 2024 Accepted: June 24, 2024 Published: July 01, 2024</p>	<p>Purpose This study aims to investigate how board diversity affects financial reporting quality by examining the relationship between board size, composition, and independence.</p> <p>Methodology The panel data of 32 firms from the Agriculture, Consumer Goods, Industrial Goods, Natural Resources, and Oil and Gas sectors were obtained from two published sources - the Nigerian Exchange Group (NXG) and audited financial statements of the companies from 2012 to 2021. The heteroskedasticity-corrected – the panel corrected standard error approach was used to test the firm-level data</p> <p>Findings The result shows that board size and structure have a negative and significant impact on earnings management, while the impact of board independence is positive but not significant. This indicates that a negative significant influence on earnings management corresponds to improved financial reporting quality, while a positive significant influence corresponds to deteriorated financial reporting quality. Therefore, only board size and board structure are considered as board characteristics that impact financial reporting quality.</p> <p>Conclusion The study concludes that quality financial reporting is important for participants in the capital markets to make informed decisions. The paper offers regulatory bodies more insights to support direction for support reforms, policy-making, and enforcement.</p>
<p>Keywords <i>Financial Reporting Quality</i> <i>Earnings Management</i> <i>Board Diversity</i> <i>Heteroskedasticity-Corrected Model</i> <i>Panel Corrected Standard Error</i></p>	
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1. Introduction

A quality financial report represents an informative guide for the capital markets. There is evidence that quality financial reports increase the ability of financial statement users to evaluate financial reports and to develop prospects for future performance (IFT World, 2023). Generally, for reported information to be considered quality, and accurate, the earnings must include all complete information needed for an informed decision process by users (Gbadebo, 2023). High-quality reporting delivers decision-useful information, which faithfully denotes the company's economic reality during the reporting period as well as the company's financial position at the end of the financial period. The reports must provide relevance and reliability of financial statements to the capital market participants, thereby matching the essential purpose of accounting reporting. There are basics for contracting projects and making investments by prospective investors (Schipper & Vincent, 2003; Entwistle & Phillips, 2003). Market stakeholders use the financial reports presumed to be a context of sound standards and are without manipulations.

This research is motivated by the need to describe internal factors that affect financial reporting quality in Nigeria. The study presents quantitative evidence that enables policymakers, regulators, and capital market participants to understand how these internal factors, especially, management diversity, affect financial reporting quality. Examining the impact of board diversity on financial reporting is needed for policy and regulations. Available evidence confirms that the outcomes are mixed and largely influenced by controlled factors including Yasser & Mamun (2016), firms' sociocultural structure Dedunu & Anuradha (2020) as well as regional differences, such as whether the firms are situated in developed or developing economies (Black & Maggina, 2016). This is not surprising that developed nations tend to possess enhanced capacities for establishing regulatory systems that foster market-driven structures. Conversely, developing nations frequently exhibit inadequate financial mechanisms and limited capital markets, thereby lacking equivalent capabilities (Agyei-Boapeah & Machokoto, 2018).

Bin Khidmat et al. (2020) find a positive correlation between board educational diversity and earnings levels. Yasser and Mamun (2016) show that board structure has no substantial effect on both financial reporting quality and firm performance in Asia-Pacific countries. Holtz and Sarlo Neto (2014) identify that internal factors such as the separation of the chairman and executive director's roles and board independence positively influence the reporting quality of Brazilian firms. AL-Dhamari and Ismail (2014) noted that financial reporting quality were higher for firms with independent chairmen relative to those with non-independent chairs. Chaharsoughi and Rahman (2013) found insignificant positive relationship between managerial ownership, independent directors, and earnings quality of firms.

There remains a dearth in literature on how board diversity may have impacted the financial quality in Nigeria. Because findings from the extant research cannot be generalized, the study offers evidence to fill this gap. The study provides empirical evidence on the relationship between financial reporting quality and board diversity, including board size, board structure and board independence for listed firms in Nigeria. In evaluating the defined objective the paper adopts earnings management – an inverse measure of financial reporting quality – and examines how three main board characteristics indicators (size, structure, and independence on the board) impact earnings management for the evaluations of three hypotheses: (1) there is a negative association between board size and earnings management (2) there is a negative connection between board composition and earnings management (3) there is a negative link between board

independence and earnings management. To ensure improved estimates, the paper uses the PCSE - a heteroskedasticity-revised least square method - to test the Nigerian data.

The findings on the parsimonious model confirmed that both size and structure of the boards significantly have impact on earnings management. Consistent with expectation, the evidence identifies that board independence negatively affects earnings management, but the effect was insignificant. Moreover, according to the control variables involved, only financial leverage supports significant influence on earnings management in all the models, whilst the asset returns and book-to-market value were found significant. The board size is the main pillar in the corporate governance structure and has pivotal role in monitoring and influencing management decisions, particularly, as related to financial reporting. They can efficiently mitigate such opportunistic behavior by the management. The outcomes are important for policies, regulations, and future research. The paper's remainder includes literature (section 2), methods (section 3), results (section 4), and conclusions (section 5).

2. Literature Review

2.1. Financial Reporting Quality

Financial reporting quality, the term, interchangeably used as earnings quality, refers to whether firms' reported information accurately represents actual activities during the operated period (Dechow et al., 2010; Dechow & Schrand, 2004; Gbadebo, 2023; Brennan, 2022). Earnings quality may be commonly adopted, and broadly used to encompass the quality of quality of items, including earnings, and cash flow, reported on the balance sheet (IFT World, 2023 Gbadebo, 2023). Financial reporting pertains to earnings and cash generated by economic activities, and the subsequent financial stance of reporting firms. It is the degree of trustworthiness of a firm's values and usefulness for assessing financial performance. Financial reports must retain information that is complete, error-free, non-misleading, and unbiased about the firms' operations (CFA Institute, 2023). When reported earnings reflect the true underlying conditions and events of the firms, the financial reports can be viewed as being high-quality World (2023). High earnings quality may be achieved if the reported earnings replicate the firm's transparency, providing the users with error-free information to access the firm's performance and make informed decisions. High-quality and accurate earnings reporting is handy to analysts in making valuable assessments about the firm's performance and prospects. High-quality earnings are the product of economic activities that provide adequate returns on a company's investment and are likely to be sustained in the future.

Dechow et al. (2010) argued that no exact measure of financial quality exists but is estimated using coarse proxies. Literature groups the proxies into two categories: The decision-useful information and stewardship (i.e., accountability) information measures. The decision-useful information indicates that financial statements aim to offer valuable information for economic decisions (Schipper & Vincent, 2003). Earnings quality is measured based on value-relevance according to decision usefulness (Jonas & Blanchet, 2000). Value relevance supposes the ability of financial indicators to capture the relevance of earnings (Qu & Zhang, 2015). The value relevance is an optimal proxy for earnings quality that captures decision usefulness (Qu & Zhang, 2015; Ali & Hwang, 2000). Some authors suggest measuring value relevance based on statistical connections between presented information and stock market values (or returns) and earnings indicators (Qu & Zhang, 2015; Shruti & Thenmozhi, 2023). Further, the stewardship (or accountability) perspective features transparency and objectivity of financial information. Rezaee (2002) indicates that accounting information exhibits accountability if it is unbiased and discloses complete information. The information must not mislead financial statement users, such as

investors and capital market participants. The financial reporting from the stewardship dimension ensures that the management is monitored and regulated to mitigate content asymmetry between managers and stakeholders. Under the stewardship (or accountability-information), earnings quality is measured using accounting conservatism. Accounting conservatism is a guideline that suggests that financial records should be prepared with carefulness and high degrees of verification. The conservatism principle requires that expenses and liabilities should be recorded instantly when there is risk and uncertainty. As such, losses are recognized immediately, and gains register when realized (Elshandidy & Hassanein, 2014). By limiting opportunistic behavior and offsetting likely biases, conservatism ensures that only reliable information is captured, as well as ensure the transparency of financial reports (Watts, 003). The conservatism degree is measured as the connection between accruals and negative cash flows normalized by the link between accruals and cash flows (Elshandidy & Hassanein, 2014).

Earnings management is arguably the most prominent aspect of accounting quality, and most often used proxy for financial reporting quality. This involves attempts by firms to use discretion to misreport underlying performance. The practices involve the use of professional judgement over sound principles or regulatory laydown to adjust economic or real financial decision, and invariably have impacts on underlying earnings indicators and economic events (Adedokun et al., 2022). Earnings management may be viewed from either opportunistic or information perspectives. While the opportunistic view maintains that managers apply discretion to fine-tune earnings to mislead investors, the information view holds that managers manipulate to signal expectations on future cash flows. Several prior empirical works are predicated on the opportunistic perspective compared to the information view (Bertrand et al., 2020; Gbadebo, 2023).

2.2. Evidence

Several papers used board diversity to investigate the impact of board dynamics on accounting quality resulting in mixed and sometimes inconsistent evidence. Arun et al. (2015) argued that because females are unlikely aggressive, more risk-averse, and ethical, they were less likely to engage in earnings management. They used a sample of 1,217 firm-years, from 2005-2011 to examine how board diversity influences earnings management in the UK. The paper found that boards with independent female directors and those with higher females were less associated with discretionary earnings management.

Badolato et al. (2014) used firm-year observations from the US, from 2001 to 2008, and examine the influence of status and expertise of auditors on discretionary accrual. The study finds that auditors with higher relative status and more financial expertise and was associated with loss abnormal accrual. Bédard et al. (2005) investigate how auditors' independence and financial proficiency impacts income-increasing and income-decreasing unexpected accruals. They found that auditor independence and financial expertise were negatively related to both income-increasing and income-decreasing unexpected accruals.

Xie et al. (2003) used 280 observations of US firms from 1992 to 1996 to investigate the effect of board size, audit committee independence, and financial expertise on earnings management. The results showed that board independence and financial expertise were associated with lower earnings management. Park and Shin (2004) used a Canadian sample of 539 observations from 1991-1997 to explore the impact of board independence and financial expertise on abnormal accruals. The study found that board independence does not constrain earnings management, however, the financial expertise of the board limits abnormal accruals. Peasnell et al. (2005) used 1,991 observations of UK firms from 1993 to 1996 to study the effect of board independence on earnings management practices,

including avoiding reporting losses, meeting analyst's earnings forecasts, and documenting profit growth. The paper finds that board independence is negatively associated with income-decreasing accrual earnings management. Ye et al. (2010) studied firm in China and found no significant difference in earnings manipulations between firms with female directors and those without female directors. Thiruvadi and Huang (2011) used 320 firms of the S&P Small Cap 600 in 2003 to examine the link between gender diversity and earnings management and found that the presence of female directors in the audit committee is related to the estimated discretionary accrual. Srinidhi et al. (2011) used 2,480 firm-year 2001-2007 to study the effect of diversity on the earnings quality of US firms and found companies with female directors had low abnormal accruals. Sun et al. (2011) used 525 observations of S&P firms from 2003-2005 to investigate how gender diversity affects earnings management. The finding showed no link between the ratio of female directors and the earnings management level.

Kyaw et al. (2015) used an EU sample for 970 firms, between 2002 and 2013, to consider the impact of gender diversity on earnings management behavior. The paper concluded that board gender diversity was related to lower earnings manipulations. Bin-Khidmat et al. (2020) explored a positive association between earnings and board educational level diversity. Khan (2018) found a negative association, while Ngo et al. (2019) found positive evidence for the relationship between market performance and board diversity. Yasser and Mamun (2016) used stacked data from 330 firm-years between 2011–2013 and found the connection between board-leadership dynamics and earning management and firm performance of Asia-Pacific nations. The paper found that female CEOs had an inverse effect on firm performance in Malaysia, Pakistan, and the Philippines. The study concludes that the board structure does not affect the financial reporting quality and performance.

Holtz and Sarlo Neto (2014) found that in Brazilian firms, board independence and the practice of separation of the roles of executive director and chairman positively influence accounting quality. AL-Dhamari and Ismail (2014) used a sample from 2008 to 2009 to examine the link between board structure and financial quality in Malaysia and found that the reporting quality was higher for firms with independent chairmen relative to non-independent chairs. They found that board size does not affect the quality of earnings, but the evidence on the effect of board independence was inconclusive. Chaharsoughi & Rahman (2013) used a sample of 114 TSE's firms from 2008 to 2010, to investigate how independent directors, board size, and managerial ownership impact earnings quality, and found an insignificant positive (negative) link between managerial ownership, independent directors (board size) and earnings quality. In the light of the above discussion, this paper attempts to evaluate the three hypotheses:

H₁: There is no significant relationship between board size and financial reporting quality.

H₂: There is no significant relationship between board composition and financial reporting.

H₃: There is no significant relationship between board independence and financial reporting quality.

3. Methodology

3.1. Data

The data was obtained from two published sources - the Nigeria Exchange Group (NXG) and audited financial statements of the companies. The paper pooled the firm-level information and stacked them for the panel estimation. The study completes the necessary sample selection procedures to exclude firms with insufficient information in the

considered periods. Accordingly, the final sample involves a 10-year period (2012–2021) for 32 firms from Agriculture, Consumer Goods, Industrial Goods, Natural Resources as well as Oil and Gas sectors. Table 1 presents a breakdown of the sample.

3.2. Model and Procedure

The study confirms how financial reporting quality is affected by only board diversity variables as indicated by equation 1 (general model) with a specific form (2) as well as alongside other correlated covariates as indicated by equation 3 (general model) with a specific model (4).

$$y_{i,t} = \sum_{j=1}^n \beta_j \tilde{x}_{j,i,t} + \sum_{t=1}^T c_i T_i + \eta_i + e_{1i,t} \quad (1)$$

$$EMGT_{i,t} = \alpha_0 + \alpha_1 BSZE_{i,t} + \alpha_2 BSTR_{i,t} + \alpha_3 BIDP_{i,t} + \varepsilon_{1i,t} \quad (2)$$

$$y_{i,t} = \sum_{j=1}^n \beta_j \tilde{x}_{j,i,t} + \sum_{k=1}^m \beta_k \tilde{x}_{k,i,t} + \sum_{t=1}^T c_i T_i + \eta_i + e_{2i,t} \quad (3)$$

$$EMGT_{i,t} = \alpha_0 + \alpha_1 BSZE_{i,t} + \alpha_2 BSTR_{i,t} + \alpha_3 BIDP_{i,t} + \alpha_4 ROAA_{i,t} + \alpha_5 BTMV_{i,t} + \alpha_6 FLEV_{i,t} + \varepsilon_{2i,t} \quad (4)$$

Where, $y_{i,t}$ in (1) and (3), denote financial reporting quality, $\tilde{x}_{j,i,t}$ are variables for board diversities (for $j = 1$ to n), and $\tilde{x}_{k,i,t}$ are variables for control variables (for $k = 1$ to m).

The specific models, that is equations (2) and (4), show how the focused board diversity variables, focusing on size (magnitude), structure (composition) independence (non-executive directors) and other control variables explain the directional value for $EMGT_{i,t}$. The variables in the specific models are defined in Table 2. The apriori signs are specified as established by extant evidence that board size, structure, and independence positively impact earnings or financial reporting, and by implication have a negative relationship with earnings management. The study uses earnings management, computed based on Kothari et al. (2005) performance-matched discretionary accruals (Adedokun et al., 2022; Bertrand et al., 2020; Gbadebo, 2023), as a proxy for financial reporting quality. The discretionary accruals replicate the direction of earnings manipulations (Malofeeva, 2018).

Table.1.Breakdown of sample

Industry	Nobs	# Firm	% Firm
Agriculture	40	4	12.50%
Consumer Goods	70	7	21.88%
Industrial Goods	120	12	37.50%
Natural Resources	40	4	12.50%
Oil and Gas	50	5	15.63%
Total	320	32	100.0%

Source: Author's own elaboration

Table.2.Summary of variables

Variable	Description	Measurement	Apriori
$EMGT_{i,t}$	Discretionary accruals	Residuals from OLS regression total accrual model.	NA
$BSZE_{i,t}$	Board size (magnitude)	Total number of the sitting board directors.	–
$BSTR_{i,t}$	Board structure (composition)	Number of sub-committees existing within the board.	–
$BIDP_{i,t}$	Board independence	Number of non-executive directors sitting on the board.	–

$ROAA_{i,t}$	Return on assets	Net profit to lagged total asset for firm (profit margin).	+
$BTMV_{i,t}$	Book to market value	Ratio between book value and market value of assets.	-
$FLEV_{i,t}$	Financial leverage	Obtained as the total liabilities divided by total assets	+

Source: Author's own elaboration

Before hypotheses testing, the paper presented pre-estimation evidence: (1) simple statistics and ordinary correlation for deterministic features and (2) variance inflation factor (VIF)'s multicollinearity test to confirm the stochastic behavior that no endogenous variable linearly and accurately predicts another. Afterward, the panel corrected the standard error (PCSE), from Beck and Katz (1995), which was used to estimate the model. The PCSE estimation was used because it offers estimates that are unbiased and efficient (Moundigbaye et al., 2017).

In terms of error variance components, OLS (with incorrect) variance of estimates with spherical disturbances, $\hat{\sigma}^2$, is:

$$Cov(\hat{\beta}_{OLS}) = \hat{\sigma}^2(X'X)^{-1} \quad (5)$$

By controlling for cross-sectional dependence in (5), an estimator of (ij)th unit covariance, $\hat{\sigma}_{ij(FGLS)} (= \hat{\Sigma}_{i,j})$, is employed to adjust (5), the PCSE (corrected) estimates of variance:

$$Cov(\hat{\beta}_{PCSE}) = \text{obtained as } (X'X)^{-1}X'\hat{\Omega}X(X'X)^{-1} \quad (6)$$

4. Results and Discussions

Table 3 reports pre-estimation evaluations, presenting outcomes for basic statistics (Panel A), correlations (Panel B), and multicollinearity tests (Panel C). The mean of the discretionary accruals (0.037) is positive and has a high standard deviation (1.011). The outcome indicates that the measures of board diversity – board size, board structure, and board independence – have a positive association with earnings management but only board size and independence are significant. For the controlled variables, the return on average assets and book-to-market value (financial leverage) has a negative (positive) correlation. Only the asset returns and financial leverage are significantly correlated with the discretionary accruals. The multicollinearity (VIF) estimation reveals that the highest VIF is less than 10, suggesting no multicollinearity amongst the variables.

Table.3.Statistics, Correlations and Multicollinearity Relations

<i>variable</i>	[A]: Statistics		[B]: Correlations	[C]: Multicollinearity	
	<i>mean</i>	<i>s. d.</i>	$EMGT_{i,t}$	Centered	Uncentered
$EMGT_{i,t}$	0.037	1.011	1	NA	NA
$BSZE_{i,t}$	8.901	2.182	0.235	2.623	1.346
$BSTR_{i,t}$	4.057	0.892	0.099	2.518	2.068
$BIDP_{i,t}$	5.638	2.695	0.168	4.803	2.771
$ROAA_{i,t}$	0.253	0.599	-0.058	5.610	3.817
$BTMV_{i,t}$	1.406	2.206	-0.168	1.805	1.088
$FLEV_{i,t}$	0.206	0.314	0.269	3.381	2.181

Note: *S. d.* is the standard deviation. Bold figures are significant correlations. The VIF's multicollinearity (centered and uncentered) measure is defined: $VIF = 1/(1 - R_j^2)$, where R_j^2 is coefficient of determination of regression of variable j on other covariates. $VIF \geq 10$ confirms the existence of multicollinearity.

Source: Author's own elaboration

Table 4 presents the earnings management model for the evaluation of the considered hypotheses. Panel A (excludes fixed effects) and Panel B (includes fixed effects) present the results without the inclusions of the other correlated covariates according to the stated specific equation (3). Panel C (excludes fixed effects) and Panel D (includes fixed effects) present the results with the inclusions of other correlated covariates according to the stated specific equation (4). As shown, the intercept term is positive (12.612) and significant, thus, suggesting existence of some level of intrinsic use of discretion in the reporting of the earnings statement of the firms. This, however, may be likely due to errors and not owing to opportunistic manipulations. Since earnings management shows drift, by implication, the quality of financial reports may have over-declined (Bertrand et al., 2020; Gbadebo, 2023).

In evaluating the hypotheses, the study uses the outcomes presented in Panel D – the most parsimonious model with the highest significance of variables and model's explanatory power. The earnings management (discretionary accruals) is negatively and significantly impacted by the board size, supposing increase board size causes a decline in earnings management, and by implication, improvement in financial reporting quality. This evidence is consistent with the expectation that the board diversity would likely increase accounting quality. AL-Dhamari and Ismail (2014), for instance, support that investors do not consider board size as a good indicator of financial quality in Malaysia.

The evidence supposes that earnings management is negatively and significantly impacted by the board structure – the measure of the composition of sub-committees within the board – thus supposes that increase board structure causes a decline in earnings management, and by implication, the quality of financial reporting is improved. This magnitude (-4.0972) is, however, lesser in absolute term relative to the influence of board size to incentivize earnings management (-8.1226), therefore, supposes that the board size has a greater impact on earnings management than the board structure. This is not surprising because the board of directors play pivotal roles in monitoring of the firms' operations and reporting, and the capacity represents a major pillar of firms' internal corporate governance structure. This result is inconsistent with evidence by Yasser and Mamun (2016) that report that board structure of firms in Asia-Pacific economies has no significant effect on financial reporting quality.

Moreso, the evidence shows that earnings management is positively, but insignificantly impacted by the board independence – the measure of number of non-executive directors represented on the board – thus supposes that the more independence the board are, the higher prevalence of earnings management behaviors, and by implication, the quality of financial reporting may deteriorate. Holtz and Sarlo Neto (2014) identify that internal factors such as the separation of the chairman and executive director's roles and board independence positively influence the reporting quality of Brazilian firms. Chaharsoughi and Rahman (2013) found insignificant positive relationship between managerial ownership, independent directors, and earnings quality of firms. The more independence the board are, the more efficiently it may assist to mitigate opportunistic behavior by the CEO, and thus, improve the quality of earnings.

For the corollary evidence for controlled correlated covariates, the research identifies that not all the covariates meet expectations according to apriori maintained. Only the coefficient of leverage, which is positive and significant (0.3961) appears to conform with expectation. Both asset returns and book-to-market value are unable to meet the expected apriori. The coefficient of asset returns was negative (-0.2731) and insignificant, an indication that the asset returns convey reversionary effects, but since this is insignificant,

suggesting that it does not contribute to motivate earnings misreporting (Adedokun et al., 2022). The coefficient of book to market value (-0.0022) is insignificantly negative with a meagre estimate indicative of no impact in influencing earnings management.

The findings have regulatory and research implications underlines. The study establishes that without considering the role of other factors to explain the variations in the discretionary accruals, the paper depicts earnings management is significantly drifted and may have increased overtime, even without the influence of other factors. Continuous improvement in technology, regulations, and auditing practice may boost financial quality and cause decrease in earnings management over time. The evidence suggests that earnings managed decrease, and by implication, increase in earnings quality due to the board size, regardless of other confounding factors controlled for (Arun et al., 2015). The fact that the board size improves the earnings quality may be attributed to spill-over effect of this development and cognitive diversity of the board (Adeniyi & Fadipe, 2018).

Table.4.EMGT on board diversity

Variable	Coeff.	Estimates (<i>p</i> -value)			
		[A]	[B]	[C]	[D]
<i>Const.</i>	α_0	10.869 (0.0000)	10.612 (0.0001)	12.869 (0.0000)	12.612* (0.0001)
<i>BSZE_{i,t}</i>	α_1	-6.8169 (0.0331)	6.7122 (0.0298)	-8.1984 (0.0331)	-8.1226** (0.0298)
<i>BSTR_{i,t}</i>	α_2	5.1258 (0.0165)	5.0972 (0.0159)	-4.1258 (0.0165)	-4.0972** (0.0159)
<i>BIDP_{i,t}</i>	α_3	-3.4903 (0.2589)	3.4912 (0.2581)	1.9843 (0.3189)	1.9812 (0.3251)
<i>ROAA_{i,t}</i>	α_4			-0.2753 (0.5286)	-0.27316 (0.5116)
<i>BTMV_{i,t}</i>	α_5			-0.0024 (0.5613)	-0.0022* (0.5613)
<i>FLEV_{i,t}</i>	α_6			0.3965 (0.0485)	0.3961 (0.0502)
Fixed Effects:					
Industry		No	Yes	No	Yes
Year		No	Yes	No	Yes
\bar{R}^2		0.1185	0.1262	0.1885	0.1896
<i>pr</i> (F-stat.)		(0.0000)	(0.0000)	(0.0000)	(0.0000)

Note: Yes (No) means that fixed effects are included (excluded). *pr*(F-stat) is *p*-value of F-statistic and \bar{R}^2 is adjusted R-square.

Source: Author's own elaboration

5. Conclusion

Quality financial reporting is important for participants in the capital markets to make informative decisions. Amidst other factors, the effect of board characteristics, including board size, board structure and board independence, on reporting quality remains a subject of interest. The paper explores the effects of board dynamics as well as other correlated characteristics on earnings management amongst firms in Nigeria. The findings are summarized:

- i. That earnings management is significantly drifted, supposing existence of certain level of financial misreporting, irrespective of other influencing and controlled firm factors.
- ii. That earnings management significantly reduced due to board size and board structure. In effect, it implies both may have led to improvement in reporting quality. The earnings management is more affected by board size relative to board structure suggesting that higher size relative to the structure of the board causes more misreporting and lowers reporting quality.
- iii. That earnings management significantly reduced due to board independence, surprisingly suggest more independence of the board leads to less motivation for misreport earnings.
- iv. That financial leverage conforms to theoretical expectations and indicates a significant positive influence on earnings management. By implication lead to less motivation towards tendency to misreport earnings, and thus improves financial reporting quality. Both asset returns and book-to-market value negatively affect earnings management and convey reversionary effects. However, they are insignificant and do not contribute to motivating misreporting in the periods.

Although the research has some limitations, the findings offer insights to support reforms, policy formulation, and enforcement by the appropriate regulatory bodies. The paper does not examine how board dynamics ‘distinctively’ affect specific sectors or industry. By considering separates investigation for financial and non-financial firms, for instance, different outcomes as well as policy effects may evolved, given the dissimilar behaviors towards manipulation as well as strictness of regulations in the different industries. The research open rooms for further investigations related broad diversity and financial reporting quality, if extended beyond the uncovered areas highlighted, to unveil more insights. Hence, research is opened to alternative aspects of financial reporting quality, including value relevance, earnings persistency, and accounting conservatism.

Author Contributions: The author solely completed the article, including the conceptualization, methodology, analysis, and results validation

Funding: The study received no funding.

Conflicts of Interest: There is no conflict of interest.

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