The Attributes of Corporate Governance and Financial Reporting Quality of Listed Agricultural Firms in Nigeria

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Abstract
This study examined the relationship between the attributes of corporate governance and financial reporting quality. It made use of listed agricultural companies on the Nigeria stock exchange. This study is anchored on agency theory. Descriptive research design and secondary data extracted from the financial statement of the sampled companies were used. The dependent variable was financial reporting quality proxy by discretionary accruals; the independent variable was the attributes of corporate governance measured by board independence, board size, and board gender diversity while the control variable was firm size. The study used multiple regression analysis to analyze the data. It concluded that the attributes of corporate governance was negatively and significantly related to discretionary accruals i.e. a percentage increase in the attributes of corporate governance reduced discretionary accruals by 132%, thus improving the financial reporting quality. The study, therefore recommended that the attributes of corporate governance especially in agricultural companies listed on the Nigeria stock exchange should be increased.

Keywords: *Board independence, Board size, corporate governance, earning management, gender board diversity, financial reporting quality*

Introduction

Financial reporting is the act of presenting financial statements in a manner that makes them understandable to users of financial information (Nwanyanwu, 2013). Adebayo (2005) describes it as a way of communicating data regarding the financial operations of both for-profit and charitable organizations. It entails providing external users with financial data about an entity that aids them in making decisions regarding their personal finances and allows them to assess the management of the entity (Oji & Ofoegbu, 2017). It must be of the highest caliber and include data that will help users make informed decisions, which will then result in the most effective use of resources, which is essential for the economic growth of any country (Tarivendi, Moradzadehfard, & Rostami, 2012).

Financial statements are business records that describe the financial health of a company (Horngren, Harrison & Oliver 2012). In order to help users make well-informed economic decisions, it delivers both qualitative and quantitative information. Generally accepted accounting principles are used to prepare financial statements in each nation. It consists of a statement of financial position, a statement of comprehensive income, a statement of equity changes, and cash flow statements. Alzoubi, (2012) affirms that various stakeholders, shareholders, investors, and other creditors assess the viability of a firm through the quality of the financial statements contained in the annual reports.

The accuracy of the stated goals and the integrity of the revealed information in a company's financial statements can both be used to evaluate the credibility and quality of a statement. If a financial statement has the qualitative qualities of being understandable, comparable, consistent, relevant, dependable, objectivity, correct, and timely, these qualities will be helpful in decision-making. These qualitative traits make it easier to assess the worth and quality of financial reporting. Financial statements that are reliable as well as of high quality are said to be free of substantial omissions or misrepresentations (Oji & Ofoegbu, 2017). Financial reporting is deemed to be of good quality if it exhibits three characteristics, namely transparency, full disclosure, and comparability.

Eyenubo, Mohamed and Ali (2017) explain that financial reporting is considered as being of high quality if it possesses three attributes which include transparency, full disclosure and comparability. Transparency is defined as the disclosure of information regarding transactions, judgments, and estimates that enables users to see the impact and outcome of preparers' judgments, estimates, and decisions. Full disclosure refers to the availability of all information required for decision-making, whereas comparability refers to the accounting for identical transactions in exactly the same way (Barton & Waymire, 2004). Some of the key characteristics of financial information that help users trust the data offered by the financial statement are relevance and reliability. Gajevszky (2015) cited in Siriyama and Norah (2017) places a strong emphasis on the significance of precision and predictability as signs of outstanding financial reporting quality. Earning management is one of the indices used to assess the financial statement's quality.

Due to the division of ownership amongst a company's owners, including its management, employees, shareholders, creditors, government, etc., corporate governance has become important. Corporate governance, according to Sanda, Mikailu, and Garba (2010), is the process through which all parties with an interest in a company work to ensure that managers and other insiders adopt policies that protect those stakeholders' interests. Obiyo and Tobira (2011) assert that it is an arrangement made up of a variety of practices (accounting standards, rules governing financial disclosure, executive compensation, the size and makeup of corporate boards, legal institutions, economic, and social types) that safeguard the interests of the corporation's shareholders. Through the content, the board of directors, outside investors, and external regulators evaluate the managers' performances. Hence the possibility of manipulating it to project a positive image of themselves and the firms that they manage through unethical accounting by managing earnings. Earning management otherwise called creative accounting is an issue of concern that threatens the credibility of financial statements.

Previous studies were done outside Nigeria (Kamrah & Shah, 2014; Mollah et.al. 2015; Gull et. al. 2018; Al-marmin et. al., 2013). This study is relevant because it examines the relationship between the attributes of corporate governance and financial reporting quality within the Nigerian context, especially in the agricultural sector.

Research Objective
To examine the relationship between the attributes of corporate governance and financial reporting quality in Nigeria.

Research Question
Is there any relationship between the attributes of corporate governance and financial reporting quality in Nigeria?

Research Hypothesis
There is no significant relationship between the attributes of corporate governance and financial reporting quality in Nigeria.

Scope of the study
This study was restricted to agricultural companies listed in Nigeria's stock exchange mainly because other sectors like financials and manufacturing sectors have been over-flogged. And many investors recently were diverting to the agricultural sector in order to sustain the economy. The listed companies were five in all namely FTN cocoa processors plc, Okomu oil palm company plc, Presco plc, Ellah lakes plc, and Livestock feeds plc.

Concept of financial reporting

Bolo and Hassani (2007) as cited in Nwaobia et al., (2016) affirm that financial reporting is one of the products of an accounting system that provides the necessary information needed to make economic and investment decisions. Nwanyanwu (2013) opines that the objectives of financial reporting vary from one organisation to the other depending on the nature of activities. For instance, in the public sector, the objective may be to know how taxpayers' resources were utilized in the provision of social and infrastructural facilities, whereas in the private sector, the purpose may be to report how owners' resources were applied to generate income and whether such application increased or decreased their wealth. Disclosure and transparency in financial statements are vital factors of high-quality reporting (Enofe, Aronnwam & Abadua, 2013). The quality of financial reporting is the accuracy with which reported financials reflect its operating performance and how useful it is in forecasting future cash flows (Nyor 2013). The usefulness of high-quality reporting can be viewed from two general perspectives; i.e., the quality of financial reporting as determined on the basis of the usefulness of the financial information to its users, and secondly, financial reporting quality which is focused on the notion of shareholder/investor protection (Stergios & Michalis, 2012).

Financial statements are the result of accounting transactions or economic dealings aimed at providing qualitative and quantitative financial information to appraise and forecast the performance of the entity to permit informed judgment and decision-making (Ilaboya, 2005). Financial reports are expected to convey information that is relevant, understandable, reliable, and complete in content to provide full picture of financial events. Adebayo (2005) identifies some of the objective financial reporting as including the provision of useful information for making economic decisions for resource allocation; the provision of information for evaluating the stability and liquidity of organisations as well as about performance generally; the provision of information especially for government and non- profit making organisations for evaluation of effectiveness of management of resources in achieving set societal goals, the provision of information for predicting, comparing and evaluating the status of an organisation in the industry and economy as a whole and the provision of relevant statements of financial activities of an organisation.

Concept of corporate governance

Corporate governance is a system and concept that includes procedures and organizational elements that support the generation of shareholder value and safeguard the interests of all stakeholders. By managing the relationships between all stakeholders inside and outside of the company, it enhances the performance of the latter. In order to promote resource efficiency and demand accountability for good stewardship, Cadbury (2000) defines corporate governance as the balance between organizational and individual goals as well as between personal and societal goals. The purpose of corporate governance is to oversee and manage management and business operations, including overseeing and managing a company's financial affairs. The existence of conflict of interest between managers and owners naturally compromises the value of the firm and only transparency can eliminate the conflict. For a company to be transparent, it should be able to disclose financial information properly, that is, providing a full and frank account of a company’s activities (Thompson & Yeung, 2002).

Corporate governance is a process by which a company's board of directors is constituted and works to achieve goals by separating ownership and control in an effective and efficient manner. According to Garko (2016), corporate governance is a set of practices that businesses use to run when ownership and management are separate. It also deals with the practices that give shareholders in corporations some level of protection with regard to their investments. Corporate governance is the word used to describe the procedures and frameworks used to oversee and manage institutions' operations in a way that maximizes long-term shareholder value while also taking other stakeholders' interests into consideration. Oronsaye (2006) as cited in Isenmila, Eragbe and Ogiedu (2010) sees corporate governance as a set of mechanism through which outside investors are protected from expropriation by insiders; insiders include managers, majority shareholders while outsiders include equity investors, providers of debt and minority shareholders.

Corporate governance mechanism

i) Board of Directors:

They are a crucial part of the corporate structure. Boards are the intermediaries between the small, powerful group that runs the company and a huge, diffuse, and relatively powerless group that simply wishes to see the company run well (Business Roundtable, 2005).They are the link between the people who provide capital (the shareholders) and the people who use that capital to create value (the Managers).Shareholders elect the board of directors to act on their behalf in monitoring the top management and ratifying the important decisions. An independent board is one that is free from manipulation and control of the CEO. The board of directors has the power to replace the executive manager or other management members. The board is mix of executives (members of the management team) and non-executive directors (outsiders). Assessment of decisions and controlling the executives are the functions of board and anticipated that the board can effectively influence the managerial decisions (Allegrini & Greco, 2013)

ii) Board independence

The emphasis on having a board with more non-executive directors stems from theoretical argument which has it that, a board dominated by executive directors (insiders) is likely to facilitate actions by management that are most favorable for management as opposed to shareholders. The effectiveness of a corporate board in monitoring the manager depends on the extent to which the board is independent of management (Liao, Mukherjee, & Wang, 2015). Salleh, Steward and Manson (2016) found that board independent promote the appointment of higher quality of auditors which indicates better assurance of audit quality. Fama and Jensen (1983) argue that including outside directors (also referred to as non-executive or independent directors) enhances the viability of the board and reduces the probability of top management colluding to expropriate shareholders' wealth.

iii) Board size

This is the number of people who make up the board. The focus on board size as an internal governance mechanism centers on concerns about cohesion, co-ordination and timely intervention of the board in respect of advice over relevant organizational matters. Beiner, Drobetz, Schmid and Zimmerman (2003) opine that board size is an independent corporate governance mechanism, and discover that board size is negatively and not significantly related to firm performance as measured by Tobibs Q. Sanda, Mikailu and Garba (2010) reveal that a statistically positive association exist between board size and firms financial performance.

iv) Gender board diversity

Gender board diversity is the number of female that are represented in the company board of directors

It is believe that the psychological differences between women and men in decision-making are shown through the content disclosed about earnings, also they are believed to be more intuitive, able to work multitasking, and are better at building relationships, while men tend to be more focused on the task and make decisions based on the information and procedures. Croson and Gneezy (2009) explain that women can choose to change the decision depends on conditions deemed appropriate in decision-making while men will adopt a policy in the decision-making despite of the different conditions. Arun, Almahrog and Aribi (2015) investigate the effect of female directorship on earnings management practices of U.K companies, and they found that firms with a higher number of female and independent female directors restrained earnings management practices in the UK. Ilanit and Rami, (2012) examine female directors and earnings management in high technology firms, the study reveal that accounting aggressiveness is affected by the proportion of women on the board of directors as well as on the audit committee. Gull et al. (2018) and Peni and Vahamaa's (2010) assume that women on the board provide greater motivation because, among other aspects, they have moral values that reduce the firm's earnings management because they follow more conservative earnings management strategies.

Choi and Rainey (2010) drew similar conclusions that there was no positive relationship between gender parity and earnings management.

Theoretical review

Agency theory

The agency theory was established by Jensen and Meckling in 1976, drawing on the research of Fama and Miller (1972), who looked at the various utility functions of shareholders and managers, and the research of Modigliani and Miller (1958). It suggests that a separation between ownership and control leads to divergence of interests between manager and owner interests; managers act to protect their own personal interests while the action of stakeholders is to maximize profits. According to this idea, agency costs are caused by conflicts of interest between shareholders and managers (i.e., agency costs of equity) and between debt holders and shareholders (i.e. agency costs of debt). According to Iskander and Chamlou (2000), the issue arises from the division between corporate outsiders and insiders, as well as between ownership and control.

The basic assumption of Agency theory is that individual are rational and act on their self-interest; these actions are endogenously derived based on well-specified preferences and belief; and that individual have unlimited computational ability. The agency problem leads to information asymmetry because managers can access information more than shareholders. Managers can therefore voluntarily disclose information as a means to reduce agency conflicts with the shareholders. Without the safeguards that good governance provides, knowledge asymmetries and monitoring challenges make it dangerous and expensive for capital providers without control over the firm to defend themselves against the opportunistic actions of management or controlling shareholders. In the absence of the protections that good governance supplies, asymmetries of information and difficulties of monitoring means that capital providers who lack control over corporation will find it risky and costly to protect themselves from the opportunistic behavior of managers or controlling shareholders. Financial statements is the main source of information for shareholders.

Empirical review

Kamran and Shah (2014) investigate the association between corporate governance characteristics and earnings management in Karachi Stock Exchange using 372 listed firms for the period 2003 to 2010. They discover that no indication that CEO duality, Audit quality, board size and block holders have an impact on earnings management practices. However, Mollah, Farooque, Asma and Molyneux (2015) investigate the impact of corporate governance factors on earnings quality in 500 large banks from 35 countries for the period 2004 to 2010. Earnings predictability is taken as a measure of earnings quality, and found that the board size and CEO power have significant positive influence on earnings quality and results are different for developed and developing economies. Diversified corporate boards is believed to have a very significant impact on firm performance, firm value creation, wealth maximization and enhance stakeholder's confidence. Gull et al. (2018) and Peni and Vahamaa's (2010) assume that women on the board provide greater motivation because, among other aspects, they have moral values that reduce the firm's earnings management because they follow more conservative earnings management strategies. Al-Mamun's et al. (2013) and Guedes's et al. (2018) findings show that there is no direct connection between either gender diversity in the boardrooms or that the firm's management enhances good management skills in the earnings management to prevent unnecessary spending and similarly promote good monitoring.

Methodology

Method of data collection

The research design adopted for this study is expo-facto survey because it majorly used existing data. It also made use of census sampling due to the fact that the total population is also the sample size i.e**.** the five agricultural companies listed in the Nigeria Stock Exchange but due to non-availability of financial statement of one of the firms; the study was restricted to four firms. Secondary data were sourced from financial statements of agricultural companies listed in Nigeria Stock Exchange. The dependent variable is the financial reporting quality proxy by discretionary accruals while the independent variables are the attributes of corporate governance proxy by board independence, board size and board gender diversity. The control variables is firm size. The method of analysis used is the multiple regression analysis to explain the relationship between the dependent and independent variables, According to Gujarati (2009), the multiple regressions is the appropriate techniques for examining the relationship between variables.

Table 1 Definitions of variables

Quality of financial reporting	Earning management using modified Jones model
Board independence	The board independence is measured by the percentage of independent non-executive directors over the total number of directors (i.e. the ratio of independent directors to total board size).
Board size	The board size is measured simply by the total number of board members (both executive and non-executive directors).
Board Gender diversity	The gender diversity is measured simply by the percentage of women on the board over the total number of directors (i.e. the ratio of women directors to total board size).
Firm size	Logarithm of total assets

Source: Author (2021)

Model specification

This study adopted discretionary accruals as a surrogate for financial reporting quality which is a balance sheet approach and also based on common usage in literature (Thoopsamut & Jaikenglit, 2008; Ali Shah, Zafar, & Durrani, 2009). The approach initially determines the total accruals before deducting non-discretionary accruals to arrive at the discretionary accruals.

Discretionary accrual (DAC) is defined as the residual from the regression of total accruals on nondiscretionary accruals. Dechow, Sloan, and Sweeney (1996) suggest that based on the competing models, discretionary accruals should be estimated by subtracting the predicted level of nondiscretionary accruals (NDA) from total accruals (standardized by lagged total assets):

Discretionary Accruals = Total accruals - Nondiscretionary Accruals ------------1

Collins and Hribar (1999) suggest the following formula for calculating total accruals using the balance sheet approach:

$TA = \Delta CA - \Delta Cash - \Delta CL + \Delta DEBT - DEP.$ -------------2

Where:

ΔCA_t is the change in current assets in year t

$\Delta Cash_t$ is the change in cash and cash equivalents in year t

ΔCL_t is the change in current liabilities in year t

Δ DEBT is the current maturities of long-term debt and other short-term debt included in current liabilities during period t

DEP. is the depreciation and amortization expense during period t

This study made use of Modified Jones Model to estimate the non-discretionary accruals (NDA) because it advances on the errors of the original Jones Model.

$NDA_t = \alpha 1\ (1/At\text{-}1) + \alpha 2\ (\Delta REVt - \Delta RECt)/at\text{-}1) + \alpha 3\ (PPEt/At\text{-}1) + \varepsilon$ --------------3

Where:

NDA_t is Non- discretionary accruals

At-1 is total assets at the end of year t-1

ΔREV_t is revenues in current year less revenue in previous year scaled by lagged total assets

ΔREC_t is net receivables in current year less net receivable in previous year scaled by lagged total assets

PPE_t is gross property plant and equipment at the end of year t scaled by lagged total assets

α1, α2, α3 are firm specific parameters

ε is the residual, which represents the firm specific discretionary portion of total accruals.

Based on the above, we formulate our model as:

FR=f (CGM)

$FR = \alpha 0 + \alpha 1BOINP + \alpha 2BZ + \alpha 3BGD + \alpha 4FZ + e$ ------------------4

A-priori expectation; $\alpha 1, \alpha 2, \alpha 3, \alpha 4 < 0$

Where FR is financial reporting quality proxy by discretionary accruals

CGM is the attributes of corporate governance proxy by board independence, board size, board gender diversity

Data analysis and Discussion

Data analysis

Table 2 Descriptive statistic

	DAC	BOIND	BZ	FZ	BGD
Mean	-13.76649	0.662247	8.500000	7.102572	0.126543
Median	-0.137133	0.666667	8.500000	7.128017	0.138889
Maximum	4.650009	0.833333	11.00000	7.992660	0.250000
Minimum	-171.3674	0.000000	6.000000	6.062894	0.000000
Std. Dev.	43.64267	0.186589	1.947849	0.676963	0.093944
Skewness	-3.029217	-2.475019	-5.31E-17	-0.237012	-0.167679
Kurtosis	10.93306	10.10401	1.692266	1.640164	1.778802
Jarque-Bera	74.72851	56.22740	1.282626	1.555390	1.202842

Probability	0.000000	0.000000	0.526601	0.459464	0.548032
Sum	-247.7969	11.92045	153.0000	127.8463	2.277778
Sum Sq. Dev.	32379.60	0.591863	64.50000	7.790731	0.150034
Observations	18	18	18	18	18

The descriptive statistics of the variables revealed all independence variables have positive mean value while DAC has negative mean value of -13.76649 with 18 observation. The standard deviation measuring the spread of the distribution stood at 43.64267 while the minimum and maximum values of -171.3674 and 4.650009 respectively. The coefficient of Skewness reveal that five variables are negatively skewed. The value of kurtosis 10.93306 suggests that the data are leptokurtic and do not follow the normal curve as requires by the Gaussian distribution assumption. An evaluation of the Jarque- Bera statistics for the variables reveals that all the variables have values greater that 5% level of significance.

Table 3 Regression Analysis
Dependent Variable: DAC
Method: Least Squares

Sample (adjusted): 2 19
Included observations: 18 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-132.8590	36.91520	-3.599032	0.0037
BOIND	-9.799364	10.84938	-0.903219	0.3842
BZ	-4.757021	1.603813	-2.966070	0.0118
BGD	-116.0589	36.92019	-3.143506	0.0085
FZ	32.18664	4.189266	7.683121	0.0000

R-squared	0.981294	Mean dependent var	-13.76649
Adjusted R-squared	0.973500	S.D. dependent var	43.64267
S.E. of regression	7.104575	Akaike info criterion	7.020557
Sum squared resid	605.6999	Schwarz criterion	7.317347
Log likelihood	-57.18501	Hannan-Quinn criter.	7.061480
F-statistic	125.8996	Durbin-Watson stat	3.274677
Prob(F-statistic)	0.000000		

The above table show the functional relationship between the dependent and independent variables as
DAC = -132.85 - 9.79BOIND- 4.75BZ - 116.05BGD + 32.18FZ

Discussions

The result shows that board independence have negative relationship with accruals implying that board independence will reduce the level of discretionary accrual in an organization i.e. 1% increase in board independence will lead to 9% reduction in the accruals. The implication of this is, if there are more non-executive directors as the board members, it will adversely affect the intentional manipulation of the financial statement, and improve the financial reporting quality. The probability value of 0.3842 which is more than 0.05 critical value indicate that there is no significant relationship between the two variables.

Also, the result reveals a negative and significant relationship between board size and accrual; the probability value of 0.0188 is less than the critical value of 0.05 indicating a highly significant relationship between the two variables. The study shows that a 1% increase in board size will reduce the level of manipulation in the financial report by 5%. It behaved in accordance with the a-priori expectation. There is a negative and significant relationship between board gender diversity and discretional accruals in the organization. A 1% increase in the percentage of females represented on the board will reduce financial report manipulation by 116%. The probability value of 0.0085 which is less than 0.05 critical value indicates that there is a significant relationship between the two variables.

The overall model indicates that the coefficient of determination R-square of 0.98 implied that 98% of the sample variation in the dependent variable is explained by explanatory variables while 2% is unexplained which could be caused by other factors not built into the model, this shows the model is of good fit. The Durbin Watson is 3.274677 which reveal the absence of serial correlation among the variable used in the model, though higher than 2 but less than 4. The model adopts the Akaike info criterion at 7.020557.

The F-statistics 125.8996 shows the overall significance of the variables used in the model, the model is rightly specified. The probability of 0.0000 which is less than 0.05 indicate that the overall regression is statistically significant, hence the null hypothesis is rejected. The regression result of the relationship between the attributes of corporate governance and financial reporting quality showed that the estimated coefficient of the regression has parameters with a negative sign and conforms to our a-priori expectation. This implies that a percentage increase in the attributes of corporate governance would reduce discretionary accruals by 132%, thus improving the financial reporting quality.

Conclusion

The study reveals that a significant negative relationship exists among board independence, the board size, board gender diversity, and discretional accruals which stand as a proxy for the financial reporting quality. The control variable (firm size) is positive for the quality of financial reporting.

Recommendation

The study recommends that in order to ensure that the financial reporting quality improved, the attributes of corporate governance tested in this study should be increased.

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