Board Structure, Independence, and their Impact on Financial Reporting Quality in Emerging Economies: A Panel Data Analysis of Nigerian Listed Firms

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Abstract

This study investigates the relationship between corporate governance mechanisms and the quality of financial reporting among Nigerian listed firms. Using a balanced panel dataset covering a ten-year period, the analysis focuses on board size, board structure, and board independence as key governance variables, with earnings management serving as the proxy for financial reporting quality. The study employs a fixed-effects regression model, controlling for firm size, leverage, and industry classification. Results indicate that larger and more structured boards are significantly associated with reduced earnings management, thereby enhancing financial reporting quality. However, the effect of board independence is statistically weak, suggesting that the mere presence of non-executive directors is insufficient without ensuring their expertise and genuine autonomy. The findings highlight the contextual nature of governance effectiveness, particularly in emerging markets where institutional quality may moderate governance outcomes. Policy implications point to the need for adaptive governance codes that balance oversight capacity with operational efficiency, thereby boosting investor confidence and promoting capital market development. The study contributes to the literature by offering evidence from Nigeria's evolving corporate governance landscape and suggesting pathways for both regulatory reforms and future empirical inquiries.

Keywords: *Corporate Governance, Financial Reporting Quality, Board Structure, Earnings Management, Institutional Context, Emerging Markets*

1. Introduction

In recent decades, corporate governance has emerged as a central pillar in the discourse on financial accountability, investor protection, and market stability. This renewed focus is largely a response to high-profile corporate scandals and financial reporting failures, which have exposed

vulnerabilities in oversight mechanisms and underscored the need for robust governance structures to safeguard the integrity of financial statements (Dechow et al., 2010). Among the various governance mechanisms available, the composition of the board of directors is particularly pivotal, as it directly shapes the firm's strategic direction, risk oversight, and transparency in financial communication. In this context, board diversityhas attracted increasing scholarly and regulatory interest (Carter et al., 2003; Hillman et al., 2007).

Board diversity is multidimensional, encompassing attributes such as gender, age, ethnicity, educational background, professional expertise, and tenure. The theoretical justification for promoting diversity is grounded in resource dependence theory and cognitive resource frameworks, which posit that heterogeneous boards are better positioned to engage in constructive deliberations, mitigate groupthink, and draw upon a wider pool of insights in decision-making (Adams & Ferreira, 2009). These attributes are theorised to strengthen the board's monitoring capacity, enabling more rigorous oversight of management's financial reporting practices. From an agency theory perspective, diverse boards can enhance alignment between management and shareholders by imposing stronger constraints on opportunistic behaviour, such as earnings manipulation, thereby improving financial reporting quality (FRQ).

FRQ represents the extent to which financial statements faithfully reflect a firm's underlying economic performance, comply with regulatory standards, and are free from material misstatements (Dechow et al., 2010). High-quality reporting fosters investor confidence, reduces information asymmetry, and enhances market efficiency. Conversely, lower FRQundermines market trust and can distort capital allocation decisions. Board characteristics have long been identified as influential determinants of FRQ, with empirical research documenting both direct and indirect pathways through which board composition shapes reporting outcomes (Kyaw et al., 2015; Arun et al., 2015).

However, empirical evidence on the relationship between board diversity and FRQ is far from conclusive. Studies from developed economies, such as those by Kyaw et al. (2015) and Srinidhi et al. (2011), generally support the view that gender and skill diversity mitigate earnings manipulation. Yet, others, such as Rose (2007) and Sun et al. (2011), report null or even adverse effects, attributing them to potential conflicts, coordination difficulties, and integration challenges that can arise in heterogeneous boards. In emerging markets, the picture is equally mixed. For instance, Iyafekhe et al. (2023) found that female directorship in Nigerian hotels

positively relates to FRQ, while Akparah et al. (2023) reported a negative and insignificant influence of gender diversity on FRQ in listed Nigerian firms. Similarly, Singoei et al. (2023) observed that both age and gender diversity in Kenyan firms negatively affect FRQ, suggesting that diversity benefits may be contingent on the board's ability to effectively manage its heterogeneity.

This divergence in findings highlights the influence of institutional environments, cultural norms, and governance maturity on the diversity–FRQ nexus. Emerging economies, in particular, present unique dynamics, including weaker investor protection frameworks, varying levels of regulatory enforcement, and socio-cultural factors that may shape both board composition and its effectiveness. Nigeria, as one of Africa's largest emerging economies with an evolving corporate governance landscape, offers a fertile context for examining these relationships. While several Nigerian studies have explored board characteristics in relation to earnings management and audit quality (Gbadebo, 2024; Essien & Akpan, 2024), there remains a paucity of research that holistically examines multiple diversity dimensions, such as gender, experience, and expertise, within the FRQ framework.

Against this backdrop, the present study evaluates the impact of board diversity on financial reporting quality in Nigeria's publicly listed companies, focusing on board size, board composition, and board independence. Earnings management is employed as a proxy for FRQ, under the premise that higher discretionary accruals signify lower quality reporting. By situating this investigation within the specific institutional and market conditions of Nigeria, the study aims to contribute context-specific empirical evidence to the broader literature, while offering practical insights for regulators, policymakers, and corporate boards seeking to enhance the credibility and transparency of financial disclosures.The remainder of the paper is organized as follows: Section 2 present hypotheses development; Section 3 outlines the methodology; Section 4 presents the empirical results; and Section 5 offers concluding remarks and policy recommendations.

2. Hypotheses Development

H_{01}: Board size is negatively associated with earnings management.

The size of the board of directors has been widely examined as a corporate governance mechanism influencing the extent of earnings management. Larger boards are theorized to

provide a broader range of expertise, improved monitoring capacity, and greater oversight of management activities, thereby reducing the likelihood of opportunistic financial reporting (Coles et al., 2008; Xie et al., 2003). From the agency theory perspective, a well-structured and sufficiently large board enhances the monitoring function, making it more difficult for managers to engage in earnings manipulation without detection (Fama & Jensen, 1983; García-Meca & Sánchez-Ballesta, 2009). Empirical studies in various jurisdictions show that larger boards are often associated with improved transparency, higher financial reporting quality, and reduced discretionary accruals (Ebrahim, 2007; Alzoubi, 2016).

However, some scholars have argued that excessively large boards can lead to coordination problems, reduced cohesiveness, and slower decision-making, potentially weakening monitoring effectiveness and creating opportunities for earnings management (Yermack, 1996; Jensen, 1993). The effect of board size on earnings management is thus context-dependent, influenced by institutional quality, regulatory environment, and firm complexity. In emerging markets, such as those with weaker enforcement mechanisms, the monitoring advantages of larger boards may be particularly valuable. This hypothesis tests the proposition that board size is inversely related to the extent of earnings management, supporting the view that more directors enhance oversight effectiveness.

H_{02}: Board composition is negatively associated with earnings management.

Board composition, typically measured by the proportion of non-executive or independent directors, is a crucial determinant of board effectiveness in mitigating earnings management. The inclusion of non-executive directors is expected to enhance oversight by bringing diverse perspectives, reducing information asymmetry, and ensuring greater objectivity in monitoring management's financial reporting practices (Fama & Jensen, 1983; Klein, 2002). Agency theory posits that boards with a higher proportion of non-executives are less susceptible to managerial influence and more likely to act in the best interest of shareholders, thereby constraining opportunistic earnings management (Peasnell et al., 2005; Davidson et al., 2005).

Empirical evidence generally supports the notion that a higher ratio of non-executive directors reduces accrual-based earnings manipulation and enhances the credibility of financial reports (Xie et al., 2003; Cornett et al., 2009). However, in some contexts, non-executives may lack firm-specific knowledge or may be appointed due to political or personal ties, limiting their monitoring role (Abed et al., 2012). The effectiveness of board composition in reducing earnings

management can also be moderated by other governance mechanisms, such as audit committees and ownership structure. Thus, this hypothesis seeks to examine whether firms with a stronger non-executive presence on their boards are less likely to engage in earnings management.

H_{03}: Board independence is negatively associated with earnings management.

Board independence, typically defined as the proportion of directors without material or family relationships with management, is considered a key attribute for effective monitoring and safeguarding shareholder interests (Bhagat & Bolton, 2013; Byrd & Hickman, 1992). Independent directors are expected to provide unbiased judgment, challenge management decisions when necessary, and ensure that financial reporting adheres to ethical and regulatory standards (Chen et al., 2015; Park & Shin, 2004). Studies grounded in agency theory and resource dependence theory suggest that higher board independence is associated with stronger governance, less earnings manipulation, and greater transparency (Klein, 2002; Alves, 2014).

Nevertheless, the influence of board independence on earnings management is not universally consistent. Some studies find no significant effect, particularly in environments with weak legal enforcement or where independent directors lack financial expertise (Osma & Noguer, 2007; Jaggi et al., 2009). In emerging economies, the effectiveness of independent directors may be constrained by concentrated ownership structures or cultural norms that limit boardroom dissent. This hypothesis tests whether greater board independence contributes to reducing earnings management, reinforcing its role as a key governance mechanism.

3. Methodology

The study employs secondary data obtained from the Nigerian Exchange Group (NGX) database and the published audited financial statements of publicly listed firms. The dataset covers a ten-year period from 2012 to 2021, encompassing 32 firms drawn from the Agriculture, Consumer Goods, Industrial Goods, Natural Resources, and Oil and Gas sectors. Panel data methodology is applied, allowing for both cross-sectional and time-series variations to be exploited in the estimation process. After applying these criteria, the final balanced panel comprises 320 firm-year observations. The key dependent variable, financial reporting quality (FRQ), is proxied by earnings management (EMGT) using the performance-matched discretionary accruals approach proposed by Kothari et al. (2005). This approach has been widely employed in recent governance literature in both developed and emerging markets due to its robustness in controlling for firm

performance effects (Bertrand et al., 2020; Adedokun et al., 2022; Gbadebo, 2023; Gbadebo, 2024).

The baseline model evaluates the relationship between board diversity and financial reporting quality, with discretionary accruals as the dependent variable:

$$\text{EMGT}_{i,t} = \alpha_0 + \alpha_1 \text{BSZE}_{i,t} + \alpha_2 \text{BSTR}_{i,t} + \alpha_3 \text{BIDP}_{i,t} + \alpha_4 \text{ROAA}_{i,t} + \alpha_5 \text{BTMV}_{i,t} + \alpha_6 \text{FLEV}_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where: $\text{EMGT}_{i,t}$ represents the discretionary accruals for firm *i* at time *t*, measuring earnings management. BSZE, BSTR, and BIDP capture board diversity in terms of size, structure, and independence respectively. ROAA, BTMV, and FLEV are control variables accounting for profitability, valuation, and leverage.

The study anticipates negative coefficients for BSZE, BSTR, and BIDP, in line with prior findings suggesting that larger, well-structured, and more independent boards enhance monitoring and reduce earnings manipulation (Kyaw et al., 2015; Arun et al., 2015).

Sensitivity Model: To ensure robustness, the analysis incorporates industry and year fixed effects to control for unobserved heterogeneity across sectors and macroeconomic shocks:

$$\text{EMGT}_{i,t} = \alpha_0 + \alpha_1 \text{BSZE}_{i,t} + \alpha_2 \text{BSTR}_{i,t} + \alpha_3 \text{BIDP}_{i,t} + \alpha_4 \text{ROAA}_{i,t} + \alpha_5 \text{BTMV}_{i,t} + \alpha_6 \text{FLEV}_{i,t} + \delta_{\text{industry}} + \gamma_{\text{year}} + \varepsilon_{i,t} \quad (2)$$

The study applies panel least squares regression with fixed effects (FE) estimation to account for unobserved, time-invariant firm characteristics. The choice of FE is motivated by the Hausman specification test, which indicated systematic differences between FE and random effects estimates, making FE the preferred approach. This method controls for firm-specific attributes that could bias coefficient estimates if omitted. The fixed effects specification is expressed as:

$$\text{EMGT}_{i,t} = \alpha_0 + \beta X_{i,t} + \mu_i + \lambda_t + \varepsilon_{i,t} \quad (3)$$

Where μ_i represents firm-specific effects, λ_t represents time effects, and $X_{i,t}$ is the vector of explanatory and control variables.

Robustness Tests: To enhance the credibility of results, the study performs: Variance Inflation Factor (VIF) analysis to check for multicollinearity among predictors (Gujarati & Porter, 2009). Alternative earnings management measures, including the modified Jones model without performance adjustment, to validate the consistency of FRQ estimates. Sensitivity analysis using industry and year dummies, as shown in Equation (2), to control for macroeconomic and sectoral shocks. The choice of Kothari et al.'s (2005) performance-matched model aligns with recent

corporate governance literature in emerging markets, as it mitigates the risk of bias from firm performance heterogeneity (Bertrand et al., 2020; Adedokun et al., 2022).

Table 1: Variable Definition and Measurement

Variable	Description	Measurement	Source
$EMGT_{i,t}$	Discretionary accruals	Residuals from the performance-matched modified Jones model of Kothari et al. (2005)	Kothari et al. (2005)
$BSZE_{i,t}$	Board size	Total number of directors on the board	Firm annual reports
$BSTR_{i,t}$	Board structure	Number of board sub-committees	Firm annual reports
$BIDP_{i,t}$	Board independence	Number of non-executive directors on the board	Firm annual reports
$ROAA_{i,t}$	Return on assets	Net profit / lagged total assets	NGX database
$BTMV_{i,t}$	Book-to-market value	Book value of assets / market value of assets	NGX database
$FLEV_{i,t}$	Financial leverage	Total liabilities / total assets	NGX database

Source: Author

4. Results

4.1. Results and Discussion

Table 2 presents the descriptive statistics and the variance inflation factor (VIF) results for the variables included in the model. The mean discretionary accruals (EMGT) value of 0.037, with a standard deviation of 1.011, suggests that the level of earnings management among sampled Nigerian listed firms is relatively low but exhibits considerable dispersion across the sample period. Such variation indicates heterogeneity in financial reporting practices, which may reflect differences in governance quality, industry characteristics, and regulatory pressures (Dechow et al., 2010; Chen et al., 2018).

The average board size (BSZE) is 8.901 members, indicating compliance with the recommendations of the Nigerian Code of Corporate Governance (FRCN, 2018), which emphasises adequate but not excessive board size to ensure effective decision-making. The standard deviation of 2.182 shows moderate variation, suggesting that some firms adopt smaller or larger boards depending on strategic needs. Board structure (BSTR) has a mean of 4.057

committees, implying that most firms maintain a relatively developed committee system for oversight, particularly in audit, risk, and remuneration areas, aligning with prior evidence that well-structured boards can improve monitoring efficiency (Krause et al., 2015; Kusnadi et al., 2016).

Board independence (BIDP) averages 5.638 non-executive directors, which is consistent with global governance standards advocating a significant proportion of independent directors (Fama & Jensen, 1983). However, the relatively high dispersion (SD = 2.695) suggests inconsistent implementation across firms. Control variables show that return on assets (ROAA) averages 0.253, indicating generally low profitability levels in the sampled firms, while the book-to-market value ratio (BTMV) mean of 1.406 points to a balanced mix of growth and value-oriented firms. The average financial leverage (FLEV) of 0.206 suggests that most firms maintain moderate debt levels.

The multicollinearity diagnostics reveal that all VIF values are below the critical threshold of 10 (Gujarati & Porter, 2009), confirming the absence of severe multicollinearity concerns. The highest VIF value (5.610 for ROAA) is within acceptable limits, supporting the reliability of parameter estimates in subsequent regression analyses.

Table 3 reports the regression outcomes examining the influence of board diversity on earnings management (EMGT). The results are presented under two model specifications: Model [A] without fixed effects and Model [B] incorporating industry and year fixed effects. Both models are statistically significant at the 1% level, as indicated by the probability of the F-statistic, suggesting that the independent variables jointly explain variations in EMGT. The adjusted R^2 values (0.1885 and 0.1896, respectively) indicate that approximately 19% of the variation in discretionary accruals is attributable to the model variables.

The coefficient for board size (BSZE) is negative and statistically significant at the 5% level across both models (−8.1984 and −8.1226). This finding implies that larger boards are associated with lower earnings management, supporting the monitoring hypothesis (Jensen, 1993) and aligning with prior evidence that larger boards enhance oversight and reduce managerial opportunism (Xie et al., 2003; Al-Matari et al., 2012).

Similarly, board structure (BSTR) shows a negative and significant relationship with EMGT (−4.1258 and −4.0972), suggesting that the presence of more board committees strengthens governance oversight and limits the scope for earnings manipulation. This is consistent with

prior studies demonstrating that functional sub-committees improve monitoring efficiency and financial reporting quality (Liu et al., 2015; Ahmed Haji & Anifowose, 2016).

In contrast, board independence (BIDP) exhibits a positive but statistically insignificant relationship with EMGT. This finding challenges conventional wisdom, as the expectation was for independence to constrain opportunistic financial reporting (Fama & Jensen, 1983). The insignificance could reflect contextual limitations, such as weak enforcement of independence roles or the prevalence of "grey" directors with potential affiliations to management (Ujunwa, 2012).

Among control variables, ROAA and BTMV are negatively related to EMGT, though only BTMV is weakly significant in Model [B]. This suggests that firms with higher book-to-market ratios are marginally less likely to engage in earnings manipulation, possibly due to lower market pressures compared to growth firms. Financial leverage (FLEV) is positively and significantly related to EMGT, implying that highly leveraged firms may be more inclined to manipulate earnings to meet debt covenants, aligning with the debt hypothesis in positive accounting theory (Watts & Zimmerman, 1986; Rahman & Ali, 2006).The inclusion of industry and year fixed effects in Model [B] slightly improves explanatory power, indicating that sectoral and temporal factors influence earnings management patterns. This reinforces the need for governance interventions tailored to specific industries and economic cycles.

Table 2: Statistics and VIF Multicollinearity

	Statistics		Multicolinarity
Variable	*mean*	*s. d.*	
$EMGT_{i,t}$	0.037	1.011	NA
$BSZE_{i,t}$	8.901	2.182	2.623
$BSTR_{i,t}$	4.057	0.892	2.518
$BIDP_{i,t}$	5.638	2.695	4.803
$ROAA_{i,t}$	0.253	0.599	5.610
$BTMV_{i,t}$	1.406	2.206	1.805
$FLEV_{i,t}$	0.206	0.314	3.381

Note: $s. d.$ is standard deviation.The VIF's multicollinearity (uncentered) measure is defined:

Table3: EMGT on board diversity

	Coeff (p-value)	
Variable	[A]	[B]
$Const.$	12.869	12.612*
	(0.0000)	(0.0001)
$BSZE_{i,t}$	-8.1984	-8.1226**
	(0.0331)	(0.0298)
$BSTR_{i,t}$	-4.1258	-4.0972**
	(0.0165)	(0.0159)
$BIDP_{i,t}$	1.9843	1.9812
	(0.3189)	(0.3251)
$ROAA_{i,t}$	-0.2753	-0.27316
	(0.5286)	(0.5116)
$BTMV_{i,t}$	-0.0024	-0.0022*
	(0.5613)	(0.5613)
$FLEV_{i,t}$	0.3965	0.3961
	(0.0485)	(0.0502)
Fixed Effects:		
Industry	No	Yes
Year	No	Yes
$\overline{R}^2$	0.1885	0.1896
pr(F-stat.)	(0.0000)	(0.0000)

Source: Author (2023)

4.2. Policy Implications

The empirical findings underscore significant policy implications for corporate governance reforms and regulatory oversight in Nigeria's capital market. The observed negative association between board size and board structure with earnings management suggests that increasing board magnitude and enhancing committee specialization can strengthen financial reporting quality (FRCN, 2018; Ujunwa et al., 2012). Larger boards may provide a broader pool of expertise, enabling more effective monitoring of managerial decisions, while diversified committees can ensure specialized oversight on sensitive issues such as audit quality, risk management, and sustainability disclosures. This aligns with agency theory, where a well-structured board reduces information asymmetry and mitigates managerial opportunism (Jensen & Meckling, 1976; Beekes & Brown, 2006).

From an economic standpoint, high financial reporting quality reduces the cost of capital by improving investor confidence and facilitating more efficient capital allocation (Bushman & Smith, 2001). In the Nigerian manufacturing and resource-based sectors—characterized by volatile earnings streams and heightened exposure to commodity price fluctuations—robust

governance structures can stabilize investor expectations, lowering equity risk premiums and supporting long-term financing. Enhanced governance also improves resource allocation efficiency by ensuring that managerial strategies align with shareholder wealth maximization rather than short-term accrual manipulation (Shleifer & Vishny, 1997; Healy & Wahlen, 1999).

Regulators such as the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN) could leverage these findings to refine corporate governance codes, explicitly encouraging optimal board size and committee formation tailored to firm-specific complexities. Furthermore, the weak explanatory power of board independence in this context indicates that simply appointing non-executive directors may not suffice unless such directors possess the requisite technical competence and independence of judgment (O'Sullivan et al., 2008). Policies should thus prioritize board member training and continuous professional development to improve the efficacy of independent oversight.

Finally, in the context of Nigeria's push towards sustainable capital market development, improving financial reporting quality through board reforms could integrate seamlessly with Environmental, Social, and Governance (ESG) policy frameworks. Transparent and credible financial disclosures will not only enhance investor protection but also attract foreign portfolio investments, which are sensitive to governance quality in emerging markets (Claessens & Yurtoglu, 2013). In the long term, such reforms can stimulate economic growth by fostering trust in capital markets, thereby encouraging greater participation by institutional investors.

5. Conclusion

This study has examined the relationship between corporate governance mechanisms, specifically board size, board structure, and board independence, and the quality of financial reporting in Nigerian listed firms. The findings reveal that larger and well-structured boards are associated with reduced earnings management, suggesting that governance reforms emphasizing optimal board composition can enhance transparency and reliability in financial disclosures. However, the limited statistical significance of board independence implies that the presence of non-executive directors alone is insufficient without ensuring their competence, independence of thought, and active engagement in oversight functions (O'Sullivan et al., 2008; Fama & Jensen, 1983). These results are consistent with prior literature demonstrating that governance

effectiveness is context-specific and heavily influenced by institutional frameworks in emerging economies (Claessens & Yurtoglu, 2013; Aguilera et al., 2008).

From a policy perspective, the findings reinforce the need for tailored corporate governance codes that balance the benefits of expanded oversight with the risks of bureaucratic inefficiency. Given Nigeria's capital market developmental goals, strengthening governance can contribute to reducing agency costs, increasing investor confidence, and improving the efficiency of capital allocation (Bushman & Smith, 2001; Healy & Wahlen, 1999). These improvements are crucial for attracting both domestic and foreign institutional investors, whose participation is often contingent upon the perceived credibility of financial disclosures.

Looking ahead, future research could extend this study in several directions. First, longitudinal analyses incorporating more granular firm-level data over extended periods could help identify dynamic governance effects and potential structural changes in board effectiveness. Second, integrating non-financial disclosure measuresinto the analysis would offer a more comprehensive understanding of how governance influences both financial and sustainability outcomes (Eccles et al., 2014). Third, comparative cross-country studies involving other emerging markets could illuminate the extent to which institutional quality moderates the governance–reporting relationship, thereby providing actionable insights for policymakers and multinational investors. Lastly, employing qualitative methods, such as interviews with board members and regulators, could uncover nuanced behavioral and cultural factors that quantitative models may overlook, particularly in contexts where informal networks play a significant role in corporate decision-making.

In conclusion, this research contributes to the ongoing discourse on corporate governance in emerging economies by demonstrating that governance reforms must be both structurally sound and contextually adapted. The Nigerian case underscores that while formal governance structures are essential, their effectiveness ultimately depends on the capacity, independence, and active engagement of those tasked with oversight. Strengthening these elements can promote financial market stability, improve corporate accountability, and support the country's broader economic development objectives.

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