

Corporate Governance Structure and Financial Reporting Quality of Quoted Manufacturing Companies in Nigeria

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Abstract: *The study investigated the impact of corporate governance structure on financial reporting quality of quoted manufacturing firms in Nigeria. A total of ten manufacturing firm were used from 2006-2017. Data were extracted from annual report and accounts of the manufacturing firms. Financial reporting quality which was calculated using Dechow and Dichev's (2002) model. The Hausman test of multiple regression analysis was employed to the hypotheses. The result found that Board meetings, Ownership structure, Gender composition and Audit committee have positive but not significant effect on the financial reporting quality of the sample manufacturing firms, while Board composition, Risk management committee and Board independence has a significant effect on the financial reporting quality. The r-squared outcome of 68% implies the ability of the selected explanatory variables to predict more than half of the changes that occurred in the financial reporting of the selected manufacturing firms in Nigeria. The regression model is all so supported by the outcome of the Durbin-Watson statistics which is 1.80 and very close to 2 indicating that possible absence of auto correlate in the regression model. It therefore that quoted firms should adhere to the guide lines given by CBN and SEC on the code of corporate governance as its their financial reporting quality. Regular suppressing and checks by the different regulated bodies is also recommended, while sanctions will be melted to those firms that violate this code and rules of corporate governance, as this volitions will help in watering down investors confidences in the sector.*

Keywords: *Corporate Governance, Financial reporting Quality, Dechow and Dichev's(2002), Accrual model, Manufacturing firms.*

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1.0 INTRODUCTION

As Nigeria is marching forward towards the year 2020, to achieve a perfect economy. One factor that is still brothing everybody is how to achieve a transparent economy, which will produced quality financial statement that is free from biases. In today's business world, organisations should are more transparent than before, with the issue of fluctuating economic climate, accounting scandals and eventually the collapse of several corporate giants such as Enron, WorldCom and Maxwell which were believed to be the pacesetters in business performance have

propelled the need for good corporate governance both in developed and developing countries. Even in Nigeria there are several cases of corporate failures such as Cadbury Plc. Lever Brothers. Bank failures. Oba, 2014.

The collapses of these corporate giants were as a result of failure in financial reporting due to fraudulent practices and weak governance mechanisms' in place. Following this series of corporate scandals and financial crises, regulators, investors and other stakeholder and Government of different countries of the world came together to tighten the structure of this organisation by forming corporate government.

This corporate government came as a result of different forms of collapse by firms and were made by the Government to take charge of this organisation so that any financial statement that is coming out will be of good quality without any biases, Amah, 2018.

According to IAS 1. Financial report present the performance of management as stewards of resource trusted to them. This concept has received significant interest from present and potential investors as well as other major stakeholders Okereke, 2008.

Corporate governance and financial reporting are highly interwoven, infact financial reporting forms a crucial part of the corporate governance mechanism Melis, 2004, Melis and Carta, 2010. The aim of financial report is to make available high quality information; which corporate governance as part of its objective provides plat forms to endure the quality of financial report published.

The provision of high quality financial reporting information is important because it influences the providers of capital and other stakeholders positively in making investment, financing and similar allocation decision that enhance the overall market efficiency (IASB, 2008). Klai and Omiri, 2011 opine that countries round the world are now setting the best acceptable corporate governance practice as a guide; Cadbury Report was produced in United Kingdom, Sarbanes-Oxley in United States, the Dey Report in Canada; the Vienot Reporting France, the olienci Report in Spain, the King's Report in South Africa. Principles and Guidelines on corporate Governance in New Zealand and Cromme Code in Germany.

The Ultimate goal of this Corporate Governance is to improve corporate governance's environments Bhagatard and Botton, 2009. Financial reporting quality is the precision with which financial reporting conveys information about a firms operation, the primary objective of financial reporting is to provide high quality financial information about entities useful for economic decision making, Biddle, Hilary and Verdi, 2009. The provision of high quality financial reporting information is impotent because it influences the providers of capital and other stakeholder positively in making investment, financing and similar allocation decision that enhance the overall market efficiency IASB, 2008. Financial reporting quality does not only refer to financial information but also disclosures and non financial information useful for decision making included in the financial statement.

The manufacturing sector of any economy in terms of share of total output or employment, growth of the sector has long been considered crucial for economic development. This special interest in manufacturing sector stems from the belief that the sector is a potential engine of modernization, a creator of skilled jobs and a generator of positive spill over effect Tybrut, 2000. Historically the growth in Manufacturing output has been a key element in the successful transformation of most economics that have seen sustained sizes in their per capital income Soderblom, 2002.

The above economic benefits of manufacturing sector can only be sustained when firms produce reliable fancial report without manipulations before publishing. The cautious short down

of manufacturing firms due to poor management hinders the economic growth and development of the nation at large.

Therefore the main objective of this study is to assess the extent the corporate governance mechanisms of Board independence, Board composition, Number of Board Meeting, Ownership structure, Number of Risk management committee meetings, number of female membership and number of audit committee members have affected the financial reporting quality of quoted Manufacturing firms in Nigeria.

2.0 REVIEW OF RELATED LITERATURE

2.1 Concept of Corporate Governance

Corporate Governance is an important concept which has attracted a fairly good deal of public interest because of its great importance for the financial and economic health of corporations and society in general. According to the World Bank Report ,2002 corporate governance is defined as the organisation and rules that affect expectations about the exercise of control of resources in a firm.

Zain-aldini &Maymand,2011 defined it as a mechanism for managing, directing and supervising the activities of the company with the aim of creating value for Shareholder, However for the purpose of this study, we would consider a definition that embrace a wider view(ie including the shareholder's perspective) of corporate governance .Hence corporate governance is defined as the set of structure, processes, customs, polices, laws and procedures that defined the way owners resources are administered or controlled in a corporation in order to protect the interest of the owners. These structures customs polices laws and procedures determine the way a corporation is being governed. There structures guide the self seeking and opportunistic tendencies of directors and also protect the owners interest Mehrani and Safarzade, 2011.

The quality of corporate governance concerns the right and interest of stakeholders. Accounting disclosure is very important to all stakeholders, thus it provide them with the necessary information to reduce uncertainty and helps them to make salient economic and financial decisions, Nassar, Uwwuigbe and Abuwa, 2014.

According to Rogers, 2005, corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance .Jenkinson and Mayer,1992 opined that corporate governance is the process and structure by which the business and affairs of intuitions are directed and managed, in order to improved long term shareholder' value by enhancing interest of other stakeholders.

2.2 Components of Corporate Governance Structures

(1) **Audit Committee:** Section 359 of the companies and Allied Matter Act 1990 expressly provide for the establishment of audit committee by quoted companies in Nigeria. Usually, the committee is made up (6) six members on equal representation. The Audit committee serves as a bridge between external Auditor and board of directors. They view the company's position in a detached and dispassionate light and often liaise between the board and external auditors to ensure that areas of differences are resolved.

(2) **Board Size:** Board size is the total number of head counts of directors seated on the company's board. It comprises of the number of individuals serving on the board of a firm Ahmad & Mansur, 2012. The code of governances that the number of non-executive directors

should be more than that of executive directors subject to a maximum board size of 20 directors (CBN, 2006) and 15 directors (SEC, 2003).

(3) **Ownership Structure:** This implies the proportion of the total number of common shares owned by the board of directors to the total members of common share outstanding. Jensen (1983) posited that when insiders obtain relatively larger Ownership, they may possess sufficient power to overcome governance structure which would allow insiders to act in their own interest with little fear of removal or sanction, so they would become enriched.

(4) **Board Meetings:** This has to do with the number of times the board of directors officially meets to discuss concerning the company. An important measure of corporate boards monitoring power and effectiveness is the frequency of board meetings. Regular meetings allow directors more time to confer, set strategy and to appraise managerial performance. Mangene and Tauringana, 2008 opined that board meetings help directors to remain informed and knowledgeable about important development with the firms and thereby place them in a better position to timely address emerging critical problems.

(5) **Board Composition:** This refers to executive and non-executive directors' representation on the board. Empirical studies on the effect of board membership and structure on firm performance have revealed mixed or opposite result. Some researchers find that firms with board of directors denominated by outsiders perform better. Weisbach, 1998. Rosenstein and Wyatt, 1990.

(6) **The Risk Management Committee:** The Committee assists in the oversight of the risk profile, risk management and risk reward strategy as determined by the board. Their function include among others; review and approval of the companies risk management reviewing the adequacy and effectiveness of risk across the company and the adequacy of prevention, detection and reprinting mechanism, review laws and regulatory requirements that may impact the company's risk profile

(7) **Board Member Gender:** In many countries, the question concerning getting more women in boards and in top executive jobs become a highly debated issue. It is argued that women directors on corporate boards after many contributions. Corporations can competitive advantage by being receptive to women's contribution at the top Huse and Solb, 2016. For example having women in boards impacts the reputation of a company, provides strategic input on women's product/market issues and of board processes and deliberations, and contributes to the firms' female employees Buke, 2003.

2.3 Origen and concept of Financial Reporting Quality

Accounting professionals agrees that modern accounting dates back in the fourteen century when double entry system began. However, the Origen of accounts are generally attributed to the works of Luca Paciole a famous Italian Renaissance mathematician. He described a system to ensure that financial information was recorded efficiently with the event of industrial age in the nineteenth century and later emergency of large corporation, a separation of owners from managers of business took place. As a result, the need to report the status of the business entries continued to became of significant importance to ensure that mangers acted in accordance with owner's risks. In addition transaction between businesses become more complex, this led to the emergence of financial reports .Kariuki and Jagongo 2013.

2.3.1 Concept of Financial Reporting Quality

Financial reporting quality is defined as an essential source of information for the decision making processes of economic agent. Investors decide whether to purchase stock by analysing a firm's financial report. Claudia, Antonio & Elisio, 2011.

Biddle, Hilary and Veidi, 2009 defined financial reporting quality as the precision with which financial report convey information about the firms operations, in particular and its cash flowing order to inform the equity investors.

Scoth and irem, 2008 defined financial reporting quality as the accuracy with which reported financial of firm reflect its operating performance and how useful they are in forecasting future cash flows. The IASB (2008) has however provided a working definition of quality of financial reporting. The Board in its conceptual framework defines quality financial reporting as that which meets the objective and qualitative characteristics of financial reporting.

2.4 Method of Measuring the Quality of Financial Reporting

To assess the quality of financial reporting various measurement models have been used in prior researches. Some of these include: (i) accrual models (Jones, 1991; Dechow, Sloan & Sweeney, 1995); (ii) value relevance model (Choi, Collins & Johnson W. B. 1997; Barth, Beaver & Landsman, 2001; Nicholas & Whalen, 2004); (iii) specific elements in annual reports Beretta & Bozzolan, 2004; Hirst *et al.*, 2004; (iv) qualitative characteristics model (Jones and Blanchet, 2000; Schipper & Vincent, 2003; Barth Landsman & Lang, 2008; Van Best *et al.*, 2009). However, this study considered and adopted the Accrual model because it is adjudged by many authors as the most widely accepted measurement model.

2.4.1 Accrual Model: This method of accounting is considered the best technique because it allows adjustments for the accounting period. It is also the best technique because it allows adjustments for the accounting period. It is also a better measure of the operating performance of a business entity but it always depends on the quality of accruals. Accrual earnings are divided into corporate accruals and non-corporate accruals. Corporate accruals reduce the quality of accruals and ultimately the quality of financial reporting. External users are always anxious to receive quality financial reporting because they do not have access to company accounts or other source of information. Proponents of this model argue that the main advantages of using discretionary accruals to measure earnings management is that there is relative ease in data collection and measurement. In addition, when using regression models it is possible to examine the effect of company characteristics on the extent of earnings management. (Healy & Whalen 1999; Dechow *et al.*, 1995).

Jones (1991) Model of Discretionary Accruals.

Jones (1991) comes up with the proposed effective new model of estimating non-discretionary. The model uses plant, properties and equipment (PPE) to control changes in non-discretionary ie change of firms activities. Furthermore sales variable is used to control changes in non-discretionary accruals which come from changes in the firm's economic environments. This model is based on the assumption that working capital accruals are related to changes in sales and depreciation is related to asset. The model

$$TAC/A_{it-1} = \beta_1(1/A_{it-1}) + \beta_2(REV_{it}/A_{it-1}) + \beta_3(PPE_{it}/A_{it-1}) + \epsilon_{it-1}$$

$$DA_{it} = TAC/A_{it-1} [\beta_1(1/A_{it-1}) + \beta_2(REV_{it}/A_{it-1}) + \beta_3(PPE_{it}/A_{it-1})]$$

Whereas

TAC_{it}= total accruals for firm i in year t. **A_{it-1}** = total assets for firm i in the previous year, **REV_{it}** = change in revenues from i in year t, **PPE_{it}** = gross property and equipment for firm i in year t, **ε_{it-1}** = error term for firm i year t. **DA_{it}** = discretionary accruals.

Modified Jones Model (1991)

Dechow and Dichev (2002 modified Jones model, in this modified Jones model, accounts receivables was taken into consideration, by this model. Estimating of normal accruals in the first stage is similar to the model. The reasoning of the modified Jones is that all changes in credit sales in the event period result from earnings management.

The modified Dechow and Dichev's (2002) model is specified as:

$$WC_t = CFO_{t-1} + CFO_t + CFO_{t+1} + Sales_t + PPE_t +$$

Where: WC=Working capital in year t, ie Accounts receivables+ Inventory – Accounts payable –Taxes payable +other assets (net)

CFO_{t-1}= cash flows from operations in year t-1

CFO_t = Cash flow from operation in year t;

CFO_{t+1} =Cash flows from operation in year t+1

Sales_t =Sales in year t less sales in year t-1;

PPE_t =Gross property, plants and equipment in year t

This measure of earning quality capotes the extent to which accrual map into cash flow realization in past present and future cash flows. The higher the absolute residual for each sample firm, the lower the quality.

This model is also supported by the works of Nuraddeen &Hasuah (2014). In which the concluded that Modified Jones model is able to detect earnings management better than other models.

2.5 Theoretical Framework

2.5.1 Legitimacy Theory

According to Toukabri, Bens and Julani (2014) the theory of legitimacy is based on two fundamental, companies need to legitimize their activities, and the process of legitimacy that benefits to business. Thus, the first element is compatible with the idea that social disclosure is related to the social pressure. In this context, we say that the need for legitimacy is not the same for all companies due to the degree of social pressure to which the company is exposed, and the level of response to this pressure.

There are a number of factors that determine the degree of social pressure on companies, and responses to that pressure. These factors are potential determinants of corporate social disclosure. The second component is based on the idea that companies can expect to benefit by a legitimate behaviour based on the social responsibility activity.

Normally the legitimacy theory is used to social and environmental reports disclosure. But the legitimacy theory can be used in corporate report, suggested by Woodward, Edwards and Brikin (1996), as one possible legitimacy/accountability reporting framework, to communicate with the shareholders and clarify the importance of this relationship. Damaso and Lourenco (2011), has concluded that the organizational legitimacy is a useful concept to explain corporate report behaviour.

2.6 Empirical Reviews

Akeju and Babatunde (2017) investigated “corporate governance and financial reporting quality in Nigeria”. The challenge is on the relationship between corporate governance mechanisms (board characteristic, audit committees, board independence, board size and growth). The study made use of 40 companies listed on the Nigeria Stock Exchange (NSE) from 2006 – 2015. The study made use of multiple regression analysis for analyzing the data. The result shows that corporate governance improved the financial reporting quality in Nigeria.

Eyenubo, Mohamed and Ali (2017) did a work on Empirical Analysis on the financial reporting quality of quoted firms in Nigeria; with time series data from 2011 to 2015, the study adopted panel data regression, it found out that audit committee has positive and significant effect on financial reporting quality. The study recommend that cooperate governance should be strengthening in monitoring and oversight role of audit committee in financial reporting process.

Paulinus, Oluchukwu and Somtochukwu (2017) Carried out a reach on Empirical Investigation of Corporate governance and Financial reporting quality of quoted companies in Nigeria, The study made use of fifteen firms quoted on the Nigeria stock Exchange market under the consumer goods sector from 2012-2016. The study adopted simple regression techniques for the quoted sample firms analyzed. The findings showed that Audit committee independence do not exert significant effect on audit delay of corporate firms, also board size has significant negative relationship with audit delay of corporate firms in Nigeria, the study recommends that corporate polices should reflect commitment to company variables such as board size that will significantly impact on the quality of financial reporting.

Onuorah and Imena (2016) carried out a research on corporate governance and financial reporting quality in selected Nigeria Company. The issue of concern was how corporate governance indicators such as structure, audit the quality of external audit quality the quality of external audit, board independence affect financial reporting quality in selected Nigeria company. The companies selected were from commodities, brewery, banking, oil and gas and beverages. The period of the study was from 2006-2015.

Econometric analysis was used for the study. The study concluded that corporate governance indicators have a positive impact on financial reporting quality measured by the discretionary accruals of firm.

Mubarak (2016) Examined the impact of corporate governances on the quality of Financial reporting in the Nigerian Chemical and Paint industry. The period of the study was between 2009-2013 with sample of four (4) companies used, data were analysed using correction regression and variable used were Board size, Board independent and Audit committee. The study concluded that Board size as well as Board independence have insignificant effect on the quality of financial reporting in Nigerian chemical and Paint Industry, it went further to say that non-executive directors in the audit committee have an insignificant effect.

Cristina (2016) did a study on Financial Reporting quality and corporate governance. The Portuguese companies evidences. The challenge was to find out the composition and characteristics of corporate governance on financial reporting quality of Portuguese non financial companies, 234 firm’s observations per year obtained by way of evidence. A multivariate analysis was used in analyzing the data collected. He concluded and that the degrees of independence do not produce any influence on the quality of the accounting information.

Nurika (2016) investigated how Financial Reporting quality affects the relationship between corporate Governance mechanism and stock price of the consumer goods industry listed in Indonesia stock exchange. The period of the study was between 2010-2013 and covered 30

firms. Path analysis was used to analyze the direct and indirect relationship among the variables. The result shows that there is no direct and indirect effect of the corporate governance to the financial reporting quality.

In a similar study Garba(2014) examined the impact of Corporate Governance on the quality of financial reporting in Consumer Goods Industry in Nigeria. The total number of quoted companies on the Nigeria Stock Exchange as at December 2102 was taken as population while sample of five(5) were selected for a period of five Years (5) (i.e. 2008-2012). The data used were obtained through secondary data from annual reports and accounts of the selected companies and data were analyzed using correlation and regression, The study concluded that Board compositions as well as Board size have positive relationship on the quality of financial reporting in consumer goods industry in Nigeria.

Uwuigbe, Peter & Oyeniya (2014) examined the effect of corporate governance mechanism on earnings management of listed firms in Nigeria a total of 40 listed firms in Nigeria Stock Exchange was used, with time series of 2007-2011. Regression analysis method was employed as a statistical technique for the analysis. The study revealed that while Board size and Board independence have significant negative impact on Earnings management; proxy by discretionary accruals; on the other hand CEO duality had a significant positive impact on earnings management. Hence the paper recommends that larger boards and diverse knowledge are more likely to be more effective.

Jamil, Mohamad, Mamdouh and Hassan (2013) Investigated the impact of governance on the quality of financial reporting, a field study on industrial firms listed in Amman Financial Market was carried out. The study made use of two researched descriptive analytical methods in the study by collecting data from sources of primary and secondary data. SPSS was used in analyzing the data. The study found out that effect implementation of the principles of Corporate Governance affect the quality of financial reporting.

Abduikadir and Noor(2013) examined whether audit committee are associated with improved financial reporting quality .using a sample of 70 companies listed on the Nigeria stock exchange, the study used archival data in the form of companies annual report to measure the association between audit committee and improved financial reporting quality. They employed Dechow and Dichev (2002) model to measure earnings a proxy for financial reporting quality. The findings show that formation of audit committee was positively associated with improved financial reporting quality, they also found out that audit committee having an independent chair and audit committee expertise were positively associated with financial reporting quality.

Similarly, Shehu(2013) investigated monitoring characteristics and financial reporting quality of the Nigerian listed manufacturing firms, Monitoring characteristics involves Leverage, Independent director audit committee institutional block and managerial shareholdings, he made use of modified Dechow and Dichev's(2002) model using 32 firms OLS was used. The result shows a significant positive relationship between monitoring characteristics and financial reporting quality.

3.0 METHODOLOGY

3.1 Research Design.

The research design adopted for the study was *ex-post facto* as the study used documented data which were extracted from the annual report and accounts of the sample firms, In view of the use of documented data for the study, the use of *ex-post facto* research design is thought justified, and such are not subject to manipulation. Purpose sampling was used to select ten quoted

manufacturing firms in Nigeria who have complete data point for the relevant number of years. The study period of the research is from 2006-2017.

3.2 Source of Date

In order to assess Corporate Governance structure on Financial reporting quality, the date selected for the research were secondary data collected from the published audited financial statement of manufacturing firms covering a period 2006-2017.

3.3 Operational Variables.

The study is based in corporate governance structure and financial reporting quality of listed quoted manufacturing companies in Nigeria

The measurement for dependent and independent variable are: Financial reporting quality is the dependent variable, in this study modified Accrual model is used to computed the financial reporting as proposed (Dechow and Dichev's2002).

The model is operationalized as

Accrual model

$$WC_t = CFO_{t-1} + CFO_t + CFO_{t+1} + Sales_t + PPE_t +$$

Where: WC =Working capital in year t , ie Accounts receivables+ Inventory -Accounts payable -Taxes payable +other assets (net)

CFO_{t-1} = cash flows from operations in year $t-1$

CFO_t = Cash flow from operation in year t ;

CFO_{t+1} =Cash flows from operation in year $t+1$

$Sales_t$ =Sales in year t less sales in year $t-1$;

PPE_t =Gross property, plants and equipment in year t

The independent variables in the study are Board composition, Board Size, number of Board meetings, Ownership structure, Gender composition, Risk management committee, Audit committee of the selected banks under study.

3.4 Model Specification

Model

The statistical tool of the model for testing the hypotheses is expressed as follows:

$$AM = \alpha_0 + \beta_1 BC + \beta_2 BM + \beta_3 OS + \beta_4 RMC + \beta_5 GC + \beta_6 AC + \mu \dots \dots 1$$

Where: AM = Accrual Model -Proxy for Financial reporting quality

α_0 = estimated of the true intercept $\alpha_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ and β_7 are parameters to be estimated

μ =stochastic term

BI = Board Independent

BC = Board Composition

BM = Board Meeting

OS = Ownership Structure

RMC = Risk Management Committee

GC = Gender Composition

AC = Audit Committee

3.5Data Analyses Techniques

In analysing the effect of corporate governance on financial reporting quality of quoted manufacturing

companies in Nigeria, multiple regression and Pearson correlation coefficient were used to analyse the data with aid of E views statistical software.

4.0 DESCRIPTIVE ANALYSIS FOR THE MANUFACTURING SECTOR

Descriptive analyses of the variables were obtained for the ten selected firms from 2006 - 2017. Some selected corporate governance indicators as well as accrual which served as a proxy for financial reporting quality extracted from the financial reports of each of the manufacturing firms in Nigeria formed a panel studies data and the descriptive analyses of each of the series were taken to assess the measure of dispersion and general behaviour of the series before other analyses will be conducted.

	BI	BC	BM	OS	RMC	GC	AC	LOGACCRUAL
Mean	2.357059	0.607311	4.663866	0.254807	1.764706	0.093613	5.689076	6.572426
Median	1.670000	0.600000	4.000000	0.290090	0.000000	0.080000	6.000000	6.622125
Maximum	7.000000	0.830000	11.00000	0.356330	7.000000	0.400000	6.000000	8.148541
Minimum	0.100000	0.100000	2.000000	0.121138	0.000000	0.000000	3.000000	4.717729
Std. Dev.	1.747398	0.179239	1.316630	0.821394	2.445008	0.113285	0.721908	0.662777
Skewness	0.898040	-0.989460	1.509359	-0.876589	0.976717	1.028328	-2.172973	-0.363722
Kurtosis	2.544955	3.859720	7.878054	3.383016	2.400090	2.901497	6.442760	2.710875
Jarque-Bera	17.02180	23.08224	163.1692	15.96748	20.70500	21.02104	152.4184	3.038302
Probability	0.000201	0.000010	0.000000	0.000341	0.000032	0.000027	0.000000	0.218898
Sum	280.4900	72.27000	555.0000	92.11220	210.0000	11.14000	677.0000	782.1187
Sum Sq. Dev.	360.3011	3.790939	204.5546	79.61314	705.4118	1.514346	61.49580	51.83429
Observations	120	120	120	120	120	120	120	120

Table 4.1: Result of Descriptive Analysis

Source: Researcher's Eviews Output 2018

The result of the descriptive analyses as contained on table 4.81 above indicates that board independence has a high level of variability which flows from the minimum of 0.10 to maximum of 7.00; but shows however a low level of dispersion for board independence over the years because the median score is 1.67 suggesting that more than half of the board independence for the ten manufacturing firms are close to 2 as against the maximum is 7. The implication is that the maximum board independence may be a chance or rare occurrence. It is also possible that high board independence outcomes were from a particular firm out of the ten selected manufacturing firms since the ratio of 7:1 for non-executive directors to executive directors is on a very high side for an average firm.

Board composition has a lesser level of variability in comparison to board independence. This suggests that the variations in the ratio of non-executive directors to the total number of directors within the manufacturing sector in this study are not widely spread as can be deduced by its median score of 0.60 and mean score of 0.61 approximately. The implication of this finding is that selected manufacturing firms in this study maintained a high number of non-executive directors in relation to the total number of directors in each of the firms within the years covered in the study. Furthermore, the median and mean values of 0.60 and 0.61 respectively indicates that most of the firms have maintained more than half of the total number of directors within the board as non-executive directors. This is an indication that board compositions across the ten selected manufacturing firms in this study were dominated by non-

executive directors on the average but at some few points in some companies, the ratio of the compositions were below half as evidenced by the minimum board composition which is 1 non-executive director to 10 total numbers of directors.

Board meetings, according to the result obtained on the above table 4.1 ranged from the minimum value of 4 times to maximum of 11 times in a year across the ten selected manufacturing firms. This level of variability is lesser than the range disparity that was obtained for the banking sector thereby suggesting comparable behaviour for selected manufacturing firms than for the banking sector. With respect to the spread of the variables around the mean, the results show that board meetings were held at an average of four times in year across the ten selected manufacturing firms in this study. The median outcome of 4.00 approximately also shows that the maximum result of eleven board meetings in a year may not be a frequent occurrence among the selected firms since the values for board meetings are dominantly around the minimum value of 2. So it can be concluded that board meetings in the manufacturing sector were held at an average of 5 times within the years covered in this study.

Ownership structure (OS) for manufacturing sector is well spread around its mean since the mean and median observations are close to half of the range which is between 0.52 minimum to 4.17 maximum.

From the descriptive analysis result obtained and shown on table 4.1 above, the number of times members of the risk management committee meet on average in a given year is 2 times approximately thereby suggesting a rather low dispersion among the observations when compared with range that originates from 0.00 and peaked to 7.00. The implication being that most of the years, some manufacturing firms may not have had their risk management committee at all since the mid-value observation is 0.00. Additionally, the minimum value of 0.00 portrays the fact that some risk management committee of manufacturing firms selected in this study failed to sit at all in some years. This is in contrast to the maximum value of 7.00 times which shows that some of the manufacturing firms also had risk management committees who met for up to seven times in a year.

Gender composition (GC) as the ratio of female members to male members in the boards of the selected firms ranged from maximum of 0.40 to minimum of 0.00. The minimum value indicates that some of the manufacturing companies at some point within the 12 years covered in this work do not have any female as a board member of the board of directors. The maximum value of 0.40 on the other hand indicates that some of these companies may have a gender composition of up to 4 female board members to every 10 male board members. However, the outcomes of the both the mean and median scores indicate that more observations for gender compositions of the boards of the different selected companies are close to ratio of 1 female in every 10 male board members. This result suggests that male members still dominate the board compositions of manufacturing companies in Nigeria.

Audit committee membership as depicted in the descriptive statistics result above is more inclined to the maximum range of the observations owing to the median value of 6.00 as against the maximum of 6. This highlights the possibility that most firms in the panel of the ten selected manufacturing companies frequently maintained audit membership strength of up to 6 whereas the minimum audit committee strength of 3 was sparingly maintained. This conclusion is further supported by the mean of AC which is 6 approximately.

The logged value of accrual which is a proxy for financial reporting quality of selected manufacturing companies in this study is considerably varies from minimum value of 4.72 to maximum value of 8.15 approximately; when this range is viewed against the median value of

6.62 approximately, we can infer that the observations for accrual is well dispersed around its mean. It further posits that may have increased fairly over the twelve years period covered by this study and across all the companies in the panel. Furthermore, the Jarque-Bera outcome yields a probability value of more than 5% suggesting that observations for accrual are normal data.

4.1 Discussion of Manufacturing Sector Regression Results

The estimation of the nature and direction of relationship between corporate governance indicators and financial reporting of selected firms within the manufacturing sector of Nigeria was conducted in this section using multiple regression analysis; and also adopting the fixed and random effect model for panel data.

Using the fixed/random effect model entails making a choice between the fixed effect regression and random effect regression output. This choice was to be made on the basis of the outcome of hausman test probability value.

Table 4.2: Hausman Test for Fixed and Random Effects Models

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	16.243358	7	0.0230

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
BI	0.205969	0.105179	0.010003	0.3136
BC	-2.290903	-0.704229	0.501652	0.0251
BM	0.036261	0.117867	0.001211	0.0190
OS	0.587179	0.064909	0.091743	0.0847
RMC	0.081162	0.077567	0.000607	0.8840
GC	-0.055140	-0.651829	0.483136	0.3906
AC	0.052957	-0.044638	0.008715	0.2958

Source: Researcher's Eviews Computation 2019

The hausman test proposes a set of hypothesis in the null and alternative forms as follows:

H0: Random effect regression model is more appropriate

H1: Fixed effect regression model is more appropriate.

According to the result obtained for the hausman test for manufacturing sector on table 4.2above, there is a significant result for the Chi-square statistics of the hausman test.

The null hypothesis of the above test proposes the acceptance of the random effect model which assumes a mean value for the intercepts of the various selected manufacturing companies whereas the alternative hypothesis suggests that the fixed effect regression model is appropriate including the assumption that though intercepts may differ among the various firms, it remains

time invariant.

However, the result of the Hausman test having a probability value of less than 5% accepted benchmark will lead to acceptance of the alternative hypothesis and conclusion that fixed effect regression model is the appropriate model for this analysis.

Based on the conclusion of the hausman test results on table 4.13 above, the regression result which was conducted using fixed effect model was adopted and shown on table 4.3 below.

Table 4.3 contains the regression result obtained for all the corporate governance indicators in this study and financial reporting quality of ten selected firms in the manufacturing sector. The result shows that board independence has a positive and significant effect on financial reporting quality of the companies. This is because the beta coefficient of board independence at the lag of one year yields a positive value which suggests that board independence of the firm attracts direct association from financial reporting quality of selected firms. The implication is that improvements in the ratio of non-executive directors to the number of executive directors in the companies' boards have the likelihood to be associated with corresponding positive reaction with respect to financial reporting quality of the banks at a statistically significant level of 5%.

Table 4.3: Panel Multiple Regression of Corporate Governance Indicators on Financial Reporting Quality of Manufacturing Companies in Nigeria

Dependent Variable: LOGACCRUAL

Method: Panel Least Squares

Date: 09/06/18 Time: 12:05

Sample (adjusted): 2007 2017

Periods included: 11

Cross-sections included: 10

Total panel (unbalanced) observations: 109

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.454087	1.012295	5.387841	0.0000
BI(-1)	0.205969	0.109814	2.175613	0.0439
BC(-1)	2.290903	0.842641	2.718718	0.0078
BM(-1)	0.036261	0.063897	0.567498	0.5718
OS(-1)	0.587179	0.312751	1.877464	0.0636
RMC(-1)	0.081162	0.038079	2.131388	0.0357
GC(-1)	-0.055140	0.901479	-0.061167	0.9514
AC(-1)	0.052957	0.124070	0.426832	0.6705

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.682921	Mean dependent var	6.584641
Adjusted R-squared	0.575602	S.D. dependent var	0.668143
S.E. of regression	0.568667	Akaike info criterion	1.851323
Sum squared resid	29.75113	Schwarz criterion	2.271074
Log likelihood	-83.89709	Hannan-Quinn criter.	2.021547
F-statistic	3.568086	Durbin-Watson stat	1.800711
Prob(F-statistic)	0.000055		

Source: Researcher's Eviews Computations 2019

Based on the result of the first beta co-efficient which is on board independence of manufacturing companies in Nigeria, the study concludes that board independence of manufacturing companies will have a significant and positive effect on their financial reporting quality at the lag length of one year.

Board composition also has a direct and significant effect on the financial reporting quality of manufacturing companies. The implication is that financial reporting quality of the selected manufacturing firms responds in the same direction as their board composition. The result is in agreement with theoretical expectation that is premised on the view that the dilution of executive directors' control of the board will promote the quality of the financial reports produced given that the non-executive directors have an independent outlook not being servants of the organization. They therefore have no interest in withholding the disclosure of any information. In addition since their interest is rather inclined to protecting their image as deserving of a person who represents shareholders and investors of different ranks and files, their dominance in a board is thought to enhance the credibility of the financial information produced by the firm. Hence we conclude in line with the findings here that board composition of selected manufacturing companies in this study has a significant and positive influence on financial reporting quality considering the probability value of the t-statistics which is significant at 1%.

The board meetings of the companies as another measure of corporate governance structure also have a positive but non-significant effect on the financial reporting quality at the lag length of one year. The finding on table 4.14 above suggests that frequencies of board meetings for the selected companies in the manufacturing sector of Nigeria are associated by a corresponding increase in the financial reporting quality. This result implies that board meetings previously described as the frequencies with which the board of directors meet, deliberate and take democratic decisions involving all directors as pertaining issues that has to do with the business; attracts a positive reaction from the financial reporting quality of the manufacturing sector in Nigeria. Though the t-statistics of the beta coefficient is not within the accepted statistical bound of 5% yet it is notable that board meetings are directly associated with financial reporting quality of selected manufacturing companies; we therefore conclude that board meetings of selected manufacturing companies in this study has positive but non-significant effect on their financial reporting quality.

Owners' structure also has a positive influence on the financial reporting quality of the sampled manufacturing firms according to the findings on table 4.3 above; the result suggests that the owners' structure of the sampled companies in this study elicits a positive response from the financial reporting quality. This result supports the notion that shareholdings ownership structure that is inclusive of directors' ownership of shares in the reporting organization is capable of influencing the interests of the directors culminating to their efficiency and by extension the firm's performance. So the multiple regression analysis above supports that owners' structure of selected manufacturing companies in Nigeria is directly associated with financial reporting quality at the lag of one year but the found association is not statistically significant.

The number of times risk management committee meet yearly yields a direct and significant influence on the financial reporting quality of selected companies in Nigeria as shown on table 4.3. This view is obtained from the fact that the beta coefficient for risk management committee (RMC) is 0.08 approximately suggesting that the frequency of annual risk management committee meetings of the ten selected companies offsets a positive influence on financial reporting quality of the manufacturing firms. The risk management committee meetings

after one year will attract a positive response from the financial reporting quality. It suggests that the financial reporting quality of companies in the manufacturing sector is responds positively to the frequency of risk management committee meetings implying that the activities of the committee contributes to the effectiveness of financial reporting quality of the companies at a significant extent. So we conclude that risk management committee meetings as an indicator of corporate governance of firms has a significant influence on financial reporting quality.

The regression results for gender composition and also for numerical strength of audit committee members each also yields non-significant effect on financial reporting quality of the manufacturing companies in Nigeria. It follows that the dilution of male dominance in the composition of board of directors of the companies shows a negative and non-significant effect on the financial reporting quality of the manufacturing companies selected in this study.

But number of audit committee members over the selected years in this study on the other hand attracts a positive response from the variations occurring in the financial reporting quality of the selected firms within the manufacturing sector. So we conclude that audit committee has a positive but non-significant influence on the financial reporting quality of the firms within the manufacturing sector of Nigeria.

On the residual statistics of the multiple regression model, the r-squared of 0.68 suggests that our regression model which regressed corporate governance indicators on financial reporting quality of manufacturing companies is well-fitted. This is because the r-squared outcome of 68% implies the ability of the selected explanatory variables to predict more than half of the changes that occur in the financial reporting quality of the selected manufacturing firms in Nigeria. The r-squared outcome also indicates that 32% of the variations that occur in financial reporting quality of manufacturing companies are explained by other occurrences or variables outside the corporate governance indicators.

The probability value of the f-statistics is significant at 1% supporting the credibility of regression equation and powers of the independent variables in predicting changes that occur in the financial reporting quality of the selected banks. The regression model is also supported by the outcome of the Durbin-Watson statistics which is 1.80 and very close to 2 indicating that possible absence of autocorrelation in the regression model.

5.0 CONCLUSION AND RECOMMENDATION

This study examined the impact of Corporate Governance structure on financial reporting quality of quoted manufacturing companies in Nigeria. The study identified corporate governance structure as an essential and effective management of quoted manufacturing firms in Nigeria. It also establishes that compliances with the code of corporate governance code in Nigeria will go a long way in enhancing financial health of the individual firms and also enhance financial reporting quality there by boosting stakeholder's confidence in the manufacturing sector. It therefore recommend that all the structures used in this study should be encourage by the regulating agencies of government (Securities and Exchange Commission & Corporate Affairs Commission) and other stakeholders in the Nigeria Manufacturing sector because of the role this sector plays in the Economy of the nation. While stiff sanctions should be meted out to Boards/mangers who violate these codes of corporate governance as this will affect the stakeholder confidence which is very dangerous to our economy.

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