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GENDER DIVERSITY, EARNINGS MANAGEMENT PRACTICES AND CORPORATE PERFORMANCE IN NIGERIAN QUOTED FIRMS

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Abstract

This study empirically examined the impact of gender diversity, earnings management practices and corporate performance of quoted firms in Nigerian. The study is motivated by the nature of the Nigerian business environment and the need for effective corporate performance by firms in different sectors of the economy; hence providing an empirical argument for future researchers who may want to build on its findings. To achieve the set objective of this study, we obtained data from the annual reports of fifty firms quoted on the Nigerian Stock Exchange (NSE). The study is empirical in nature and adopted the survey research design to implement simple random sampling. Furthermore, the Panel Data Regression estimation technique was employed to estimate the specified model of the study. The results revealed that female chief executive officers have a negative but insignificant impact on the financial performance of firms in Nigeria, while the female chief financial officer has a positive and significant relationship on the financial performance. The result also shows that variables such as female membership and audit committees have negative and insignificant relationship with corporate performance. However, the higher the proportion of females on the board, the better the performance of firms in Nigeria. This study, therefore, recommends that management of various companies should formulate and implement policies

that will include gender diversity on the board in order to stimulate earnings management and other performance measures in the right direction. This invariably would positively influence the market value per share of their companies.

Keywords: Gender Diversity, Earnings Management, Corporate Performance, female membership, financial performance

INTRODUCTION

Over the last few years, the issue of corporate governance has raised a series of arguments among scholars and the need for an effective system of governance has remained a major challenge, thus, the financial scandals that occurred in 2008affected a huge number of businesses across the globe (Abeysekera, 2013). However, recent corporate governance literatures have focused on different mechanisms to improve the monitoring of managerial activities, so that stockholders' interests can be protected (Demuren, 2010). For instance, more diverse boards as regards the origin and background of its members can reduce earnings management practices and the probabilities of committing frauds in financial statements (Peasnell, Pope and Young, 2005).

Zain-aldini Maymand, (2011) expressed that the corporate board is responsible for ensuring a good governance system that centers on the shareholders' interests. This view is based on the resource-dependence theory assumptions, which states that organizations have the ability to attract, utilize and maintain a stream of resources from their external environment (Mehrani and Safarzade, 2011). Corporate boards are part of the resource stream since they come along with bundles of knowledge, experience, ideas, and professional contacts (Carpenter, Geletkanycz, and Sanders, 2004). Boards that include women and individuals from different background, races, ethnicities, and other minority characteristics help to broaden a firm's resources and augment the range of perspectives for the problem solving and strategic planning process (Ruigrok, Peck and Tacheva, 2007).

In more recent times, a lot of researchers have started investigating the effect of board diversity which is described as the variation among its members (Priya and Nimalathasan, 2013; Shiah-Hou and Cheng, 2012). Some of the concerned raised have been proficiency and managerial background, personalities, learning styles, education, age and values. However, under corporate governance circles, the board gender diversity entails the inclusion of female directors on the board. One reason behind the increased attention to the gender of top executives and board of directors' among organizations worldwide, is that female representation

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in corporate leadership is still very low despite the fact that women may increasingly possess the same relevant skills and qualifications as men (Smith, Smith and Venner, 2005).

Overwhelming evidence in sociology, psychology, and behavioral economics concludes that women are more risk averse than men (Byrnes, Miller and Schafer, 1999). Nevertheless, the role of executive gender has so far been ignored in this context. Prior studies suggest that female representation may enhance the functioning and efficiency of corporate boards and committees, thus, executive gender may affect managerial behavior(Byrnes, Miller and Schafer, 1999). Although gender diversity in corporate governance is desirable from the perspective of social cohesion and is an increasingly visible trend in modern establishments, from an economic perspective, this diversity should not be established *per se*, but should lead to an increase in corporate value (Gallego, García and Rodríguez, 2010).

Given that accounting rules and financial reporting standards provide the executives of a firm with considerable opportunities for earnings management, it is not surprising that increasing attention in financial accounting literature has been devoted to the analysis of earnings management (Gallego, et al. 2010;Beneish, 2001). It has been long acknowledged that firm's executives may have incentives to manipulate earnings in order to maximize the firm value and/or their own wealth at the expense of shareholders (Beneish, 2001). Thus, it is widely recognized that the quality of financial reporting may depend on managerial motives and characteristics. Moreover, the opportunism of the firm's executives tends to reduce earnings quality (Smith, et al. 2005; Beneish, 2001). Therefore, this research attempts to extend this aspect of literature by addressing the potential effects of gender diversity and earnings management on firm performance in Nigeria. This will highlight the presence of women in key decisional areas of corporate firms in Nigeria and how their presence affects firms' performance.

This study is distinct from other related studies and as such, enables it to contribute to literature in these ways; first, the data analysis was done in such a way that the uniqueness of any company used in this study does not interfere with our findings. Second, the data used wasin the period span of five years from 50 firms which is more than most studies in this area, this will help to provide additional perspective to the gender diversity and corporate performance discussion. Third, the study employs a purely empirical methodology using independent variables that adequately captures gender diversity, this will enable us to gain more insight into the causal relationship between gender diversity-related variables and corporate performance.

The remainder of this paper is prearranged as follows: Section two provides empirical background and the hypotheses of the research. More precisely, this paper explores the literature by addressing the potential effects of gender diversity and earnings management on firm performance in Nigeria. Section three presents the research methodology. The empirical

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findings of our study are discussed in section four. Finally, conclusion and recommendation are reported in section five, where we outline our results; discuss the implications and make recommendations.

EMPIRICAL LITERATURE

The issue of earnings management and financial performance has received considerable attention in recent years from academics; market participants and regulators. This section presents a review of related literature. Masulis and Mobbs, (2011) defines earnings management as an intentionally-driven act of intervention in the external financial reporting process, with the intent of obtaining some private gain. While Beneish, (2001) expressed further that earnings management occurs when managers apply discretion in financial reporting throughthe structuring of transactions to alter financial statements, to either mislead users such as stakeholders and investors. However, the underlying economic performance of a company does influence the contractual outcomes that depend on reported accounting numbers (Masulis and Mobbs, 2011). Basically, all managerial activities have a potential effect on earnings and in that sense constitute earnings management; otherwise, the activities presumably would not be undertaken (Beneish, 2001). Earnings management generally implies that the activities undertaken are designed either to smooth earnings over two or more interim accounting periods, in other to achieve a designated earnings level perhaps to meet security analysts' forecasts. Earnings management usually involves the artificial increase or decrease of revenues, profits, or earnings per share figures through aggressive accounting tactics. Aggressive earnings management is a form of deception and differs from reporting errors. Drivers of such behaviour include market expectations, personal apprehension of a bonus and maintenance of position within a market sector.

Psychology and management literature have long acknowledged that significant gender-based differences do exist, for instance, in leadership styles, communicative skills, conservatism, risk averseness, and decision-making. Given these differences and their potential implications for corporate governance, the issue of gender diversity has begun to receive increasing attention in corporate finance and corporate governance literature over the past few years. Carter, et al. (2003) Erhardt, Werbel and Shrader, (2003), Farrell andHersch, (2005), Rose, (2007) Campbell andMinguez-Vera, (2008) and Adams & Ferreira, (2009) examine the effects of female executives and directors on the firm's financial performance and market value. Erhardt, et al. (2003) used a sample of large U.S. firms to examine the relationship between board diversity and financial performance and document that the diversity of the board is positively associated with profitability. They argue that gender diversity may lead to a wider

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knowledge base, which may create a competitive advantage compared to companies with non-diversified boards.

The information perspective or theory according to Schipper, (1989) is a key element underpinning the study of earnings management or creative accounting phenomenon. A conflict is created by the information asymmetry that exists in corporate structures between a privileged management and a more distant body of stakeholders. Managers may choose to exploit their privileged position for private gains by managing financial reporting disclosure in their own favour. The information perspective assumes that accounting disclosures have information content that possesses value to stakeholders in providing useful signals. It may be difficult or impossible for individual stakeholders to discern the fact and the effect of accounting manipulation, because of an insufficient personal skill, indifference or an unwillingness to engage in a detailed analysis (Erkens, Hung and Matos, 2010). Therefore, it is ideal for a board to be gender-diversified in order to accommodate the salient interests of all stakeholders as a way of reducing the problem of information asymmetry and also improving performance.

According to the agency theory, a firm can be viewed as a nexus or network of contracts, implicit and explicit, among various parties or stakeholders,such as shareholders, bondholders, employees, and society at large. The interests of stakeholders are not always aligned. Agency problems occur when the interests of agents are not aligned with those of principals owing to the separation of management and ownership. Holmstrom andMilgrom, (1994) argued that instead of providing fluctuating incentive payments, the agents will only focus on projects that have a high return and have a fixed wage without any incentive component. Although this will provide a fair assessment, it does not eradicate or even minimize corporate misconduct. Here, the positivist approach is used where the agents are controlled by the principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). This study proposes that gender diversity of the board can be a way of aligning the interest of the principal and the agents without necessarily increasing the agency cost. Zhang and Rajagopalan, (2004) expressed that resource based judgment and agency theory can be employed to explain issues of board diversity in the participation and leadership of the board of directors. The composition of the board of directors and its committee will have substantive implication to the firm. Moreover, board members of diverse gender may better avoiding the practices of earnings management, thus, providing shareholders with more reliable numbers of financial reporting (Gallego, et al. 2010). The role of directors is imperative to counter managerial opportunistic’ behaviour, which includes taking action for their own personal interest at the expense of shareholders’ interest

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(Donaldson & Davis, 1991). Hence, board diversity can lead to an increase in efficiency of monitoring, which can eventually lead to transparent and reliable reporting.

Female Chief Executive Officers and Firms' Performance in Nigeria

There are several arguments in favour of diversity of board members in prior literature, whilst, some studies suggest that gender diversity does not necessarily improve firm performance (Emilia and Sami, 2010). Watson, (2002) explained that after controlling for the industry and age of the firm, there are no significant differences between male- and female-controlled establishments. However, he also finds some evidence to suggest that female-controlled firms may outperform male controlled firms. Brennan & McCafferty, (1997), Fondas and Sassalo, (2000), Eagly and Carli, (2003) and Huse and Solberg, (2006) as cited in Emilia and Sami, (2010)explained why female executives and directors may improve firm performance and corporate governance. Brennan and McCafferty, (1997) advocate that females have a better understanding of consumer behaviour, needs of the customers as well as the opportunities for companies to meet those needs. Fondas and Sassalos, (2000) presume that diverse boards are more effective than homogenous boards. They argue that women tend to improve decision-making by bringing different perspectives and opinions into a discussion. Eagly and Carli, (2003) opined that the leadership style of women is more effective in the contemporary business environment. Furthermore, they noted that due to the glass ceiling phenomenon, women have to demonstrate extra competence in order to reach managerial positions and corporate boards. Based on these, we frame our first two hypotheses in their null forms:

$H0_1$: There is no significant relationship between female chief executive officers and firms' financial performance in Nigeria.

$H0_2$: There is no significant relationship between females on the board and the performance of the firms in Nigeria.

Female Chief Financial Officers and Firms' Performance in Nigeria

Using Danish data, Rose, (2007) reports that there is no significant link between firm performance and female board representation. Adams & Ferreira, (2009) asserted that the average effect of female directors on firm performance is negative. Their findings also indicate that gender diversity may improve financial performance in companies with weak corporate governance.

A good number of studies have tried to look at board diversity and its impact on corporate performance from a socio-psychological perspective and more often than not, the findings show that, when it comes to financial decision making, female financial officers display

a much more important aversion to risk than their male counterparts (Riley and Chow, 1992;Sunden and Surette, 1998; Barber and Odean, 2001; Bliss & Potter, 2002). Therefore, it can be inferred that in-spite of the noticeable problems in the financial reporting process, female financial directors are more likely to further increase their control on the queries identified. Females' adhering to business ethics is likely to reinforce the social responsibility in their organizations. Indeed, the governance role of the board of directors stretches beyond the shareholders' wealth maximization to include their ethic treatment (Van der Walt, et al. 2003). In the work of Bear, et al. (2010) they demonstrate a positive relationship between the number of female financial officers/directors and the intensity of social responsibility indexes. Women's presence demonstrates great awareness of social responsibility norms. This leads us to our third hypothesis which states that:

$H0_3$: There is no significant relationship between female chief financial officer and performance of firms in Nigeria.

Female Audit Committee Membership and Firms' Performance in Nigeria

In theoretical literature, one of the theoretical perspectives the agency theory underpins the logic behind the board of director diversity. According to Bathala, et al. (2003) agency theory confers on the board of directors a supervisory role, which requires the appointment of qualified independent and self-controlled specialist directors. Diversity boosts the board independence and engagement and advocates a procedural justice by assuring a direct representation of shareholders and stakeholders interests in the decision making process (Carter, et al. 2003; Luoma and Goodstein, 1999).In the same vein, Kroll, Walters and Wright,(2008)in their study discovered that the improvement of the control role of boards is guaranteed by greater gender diversity. Fahlenbrach and Stulz, (2011) also found that women are more likely to be present in important committees of the board, such as audit, remuneration and nomination committees. The amelioration of the disciplinary role allows the cut of agency costs. In fact, using two agency cost variables (the free cash flows and poor growth or dividend payout ratio) (Carter, et al. 2003). Jurkus, et al. (2010) revealed that there is a negative and significant relationship between agency costs and boardroom gender diversity for firms that show a weak external governance structure. In respect to this, we state the fourth hypothesis thus:

$H0_4$: There is no significant relationship between female memberships on audit committees and earnings management practices in Nigeria

According to Huse and Solberg, (2006) as cited in Emilia and Sami, (2010), female representation could improve board behaviour and proficiency simply because the women on corporate boards tend to be better prepared for the board meetings than men. A considerable

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body of economic psychology literature suggests that females are more conservative and risk-averse than men (Johnson and Powell, 1994; Powell and Ansic, 1997; Jianakoplos and Bernasek, 1998) as cited in Emilia and Sami, (2010). Also in the study by Bernardi and Arnold, (1997) as cited in Emilia and Sami, (2010), female executives and directors tend to have higher moral standards than their male counterparts. Furthermore, MacLeod, (2007) as cited in Emilia and Sami, (2010) argues that women are more trustworthy than men, and are thereby less likely to manipulate corporate financial statements and other disclosures.

RESEARCH METHODOLOGY

This study adopts the descriptive research design. Although, the population of this study consists of all 198 firms quoted on the Nigerian Stock Exchange as at 31st December, 2015,however, a sample of 50 quoted firms was drawn to implement simple random sampling in order to have an in-depth understanding of gender diversity, earnings management and corporate performance in Nigeria. The secondary data collection method was employed, while data were obtained from the annual financial reports of the selected 50 firms over a period of 5 years (2010-2014). Furthermore, the panel data ordinary least square (OLS) regression technique was considered to analyze the data collected; given that the study is set to assess the relationship between gender diversity, financial performance and earnings management across different firms in Nigeria. The model adopted for the purpose of this study was modified from the study of Sun, Liu and Lan, (2011) which is specified below:

$$ROTA_{it} = \beta_0 + \beta_1 FCEO_{it} + \beta_2 FCFO_{it} + \beta_3 FACC_{it} + \beta_4 FBOARD_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \beta_7 ACC_{it} + \mu_t$$

Where;

ROTA: return on total assets is expressed as profit after tax (PAT) divided by the total assets. This captures firms’ performance for the purpose of this study,

FCEO: female chief executive officer,

FCFO: female chief financial officer,

FACC: female audit committee,

FBOARD: female board composition,

SIZE: firms’ size; is the natural logarithm of total assets,

LEV: leverage,

ACC: discretionary accruals, since

$$ACC = a_0\, 1/TA\text{-}1 + a_1 SALES + a_2 PPE + e$$

Given that;

ACC= total accruals measured as the difference between earnings before extraordinary items and discontinued operations and cash flow from operations, deflated by beginning total assets.

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TA_{-1}= total assets at the beginning of the year,

SALES = change in sales between year *t*-1 and year *t*, deflated by beginning total assets,

PPE= gross property, plant, and equipment, deflated by beginning total assets.

ANALYSIS AND DISCUSSION OF RESULT

Descriptive Statistics

Table 1. Descriptive Statistics

	SIZE	ROTA	FCEO	FCFO	FACC	FBOARD	ACC	LEV
Mean	10.49475	0.055472	0.080000	0.092000	0.059802	0.099366	-7.43E+09	0.716823
Maximum	12.39156	0.774884	1.000000	1.000000	0.429000	0.770000	1.29E+12	6.862062
Minimum	8.363300	-0.37056	0.000000	0.000000	0.000000	0.000000	-3.65E+11	0.010473
Std. Dev.	1.026138	0.118465	0.271837	0.289606	0.091547	0.107568	1.11E+11	0.540428
Jarque-Bera	14.94355	746.5391	999.0597	703.4900	71.07286	364.0124	61924.90	50726.98
Probability	0.000569	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Observations	250	250	250	250	250	250	250	250

Source: Researcher's Computation (2017)

Table 1 shows the distribution of the variables' statistical properties. During the 2010-2014 periods, the highest mean value was recorded by the size of firms (10.49475); this variable also had the highest volatility with a standard deviation value of 1.026. The mean of return on total assets of 0.055 indicates a relatively low level of the performance on the financial statement given that the maximum value is 0.775. The variable also displays low level of volatility at 0.118465. It is however skewed to the right (1.673977) and the p-value of the Jarque-Bera statistic shows that it is normally distributed. Likewise, all the variables used for this study are normally distributed.

Panel Regression

Table 2. Pooled Ordinary Least Square result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.025622	0.015773	-1.624367	0.1056
FCEO	-0.001084	0.024698	-0.043876	0.9650
FCFO	0.050779	0.025624	1.981711	0.0486
FACC	-0.058832	0.076579	-0.768245	0.4431
FBOARD	0.006737	0.043926	0.153364	0.8782

Table 2...

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ROTA(-1)	0.546039	0.085671	6.373709	0.0000
LEV	0.068686	0.020536	3.344742	0.0010
R-squared	0.395758	Mean dependent var		0.055598
Adjusted R-squared	0.380777	S.D. dependent var		0.118686
S.E. of regression	0.093395	Akaike info criterion		-1.876245
Sum squared resid	2.110881	Schwarz criterion		-1.777361
Log likelihood	240.5926	Hannan-Quinn criter.		-1.836443
F-statistic	26.41701	Durbin-Watson stat		1.900372
Prob(F-statistic)	0.000000	Wald F-statistic		20.76679
Prob(Wald F-statistic)	0.000000			

Source: E-views Output (2017)

From the 2 panel regression result, it can be seen that female chief executive officer has a negative impact on firm performance, implying that the presence of a female chief executive officer would cause a decline in the firm's performance. However, the p-value suggests that this relationship is not statistically significant.

Alternatively, female chief financial officer has a positive relationship with firm performance. Essentially, this shows that a firm with a female chief financial officer will witness increased performance and the relationship is statistically significant at the 5% and 10% significance level.

The result shows the existence of a negative relationship between the proportion of females in an audit committee and corporate performance. We can infer from this that the more females on an audit committee, the lower the firm's corporate performance, although the p-value of the t-statistics shows that this relationship is not statistically significant.

Conversely, the more females on the board of directors of a firm, the higher the firm's corporate performance, but again this relationship is not significant.

It can also be seen from the above result that past return on total asset has a positive impact on corporate performance. The value of the coefficient of this variable indicates that it has the strongest impact on corporate performance when compared with other variables in this study and the relationship is statistically significant at all confidence levels.

Finally, leverage has a positive and significant relationship in corporate performance as shown in the result above.

The R-squared value of 0.395758 implies that about 40% of the systematic variations in corporate performance are explained by the variables: female chief executive officer, female chief financial officer, proportion of female in the audit committee, female on the board, past

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return on total asset and leverage while the remaining 60% of the systematic variations are unexplained by the model. This means that other factors apart from gender diversity characteristics and earnings management characteristics are responsible for a firm's corporate performance.

The goodness-of-fit of the model is further emphasized by the statistical significance of the F-statistics, which is 26.417 with a p-value of 0.0000, this means that all the explanatory variables taken together are significant. The Durbin-Watson statistic of 1.9 indicates the absence of first-order autocorrelation.

CONCLUSION AND RECOMMENDATIONS

From the empirical analysis of the study, it was seen that there existed a negative but non-significant relationship between female chief executive officers, female memberships on audit committees and firms' financial performance in Nigeria. However, female chief financial officer, proportion of females on the board and leverage had a positive impact on the corporate performance of the firms in Nigeria. The composition of boards of directors is attracting greater attention, as a consequence of its impact on board independence and on the monitoring of managers. Among the different issues analysed in the composition of boards of directors, gender diversity particularly stands out because it can become a competitive advantage and a source of corporate value. Moreover, the existing corporate finance literature suggests that executive gender may affect managerial behavior, while a vast body of accounting literature shows that the quality of financial reporting depends on managerial motives and incentives. Based on the findings, the following recommendations were proffered;

1. The management of the various companies is called upon to formulate and implement policies which will include gender diversity on the board which will help to stimulate earnings management and other performance measures in the right direction which would positively influence the market value per share of their company.
2. The Stock Exchange, the Corporate Affairs Commission, the Financial Reporting Council and other regulatory agencies should continue to emphasize adequate, fair and true disclosure of companies' results and performance. It should put in place a system for rewarding good accounting, auditing and reporting practices as well as putting in place measures to punish companies suspected to be involved in window dressing foul play on any of such practices.
3. Board size should be relative to the firm's business needs, scope and complexity. Since no two firms are exactly alike in all ramifications, it is important that an appropriate size is

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understood to be a function of each firm's circumstances. Setting arbitrary board size benchmarks may therefore be counterproductive.

4. It is seen that Gender Diversity is a very important requirement for excellent corporate performance, so, to that end, firms should ensure they level the playing field by adopting policies that will facilitate women's full-time career growth which would serve as a good foundation to women for senior corporate positions.

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