International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. VIII, Issue 9, Sep 2020

http://ijecm.co.uk/

INFLUENCE OF GENDER COMPOSITION ON FINANCIAL REPORTING QUALITY OF QUOTED MANUFACTURING COMPANIES IN NIGERIA

Amah Kalu Ogbonnaya
Accounting Department, College of Management Sciences,
Michael Okpara University of Agriculture, Umudike, Abia State, Nigeria
kaluogbonnaya30@yahoo.com

Michael Chidiebere Ekwe
Accounting Department, College of Management Sciences,
Michael Okpara University of Agriculture, Umudike, Abia State, Nigeria

John Uzoma Ihendinihu
Accounting Department, College of Management Sciences,
Michael Okpara University of Agriculture, Umudike, Abia State, Nigeria

Abstract

The study examined the Influence of Gender Composition in the Boards of Corporate entities on the Financial reporting quality of the firms in Nigeria. The Specific objective of the study was to investigate the extent to which Gender has Influence on Financial reporting quality among quoted Manufacturing firms in Nigeria. A total number of ten Manufacturing companies were selected for the study. The time series data (2006-2019) used were obtained from the annual report of the quoted manufacturing companies. Accural model was used to compute the proxy for financial reporting quality , while Gender composition is calculated as the ratio of female to male Directors on the Board. The Ordinary Least Squares technique was used to analyze the data. The result indicated zero impact on financial reporting quality. The study therefore concludes that the numbers of female Directors on the Boards of corporate entities are not *significant to influence financial reporting quality. The study recommends that equal number of males and females should be included on the Board of Directorship of every manufacturing Firm.*

Keywords: Gender, Financial Reporting Quality, Quoted Manufacturing Firms. Nigeria Stock Exchange, Accrual model

INTRODUCTION

According to Goudreau (2011) women are rising to highest levels of government in many countries ,advancing to executive ranks at top corporation, and these appear to have positively and significantly contributed to the success of the countries or firms where they have been involved; Angela Merkel of Germany, Kolinda Graber-Kitarovic of Croatia and Salome Zurabishrill of Georgia are tested examples. The Price Waterhouse Coopers (PWC 2013) report with data of women from 20 global markets showed that women comprised approximately 60% of employees in the financial services industry. Despite their successes however, there is an insignificant number of female directors on the boards of Public companies, around the world, woman held only 14% of board seats and a mere 2% of CEO portion in the financial service industry (Rozmina and Mwangi, 2017).

Following the number of corporate scandals and failures as well as financial crises around the world over the past few years, such failures as in Enron Corporation, WorldCom, Health Smith Corporation, Global crossing etc big concerns have been raised about the effectiveness of corporate governance system, especially when it is noted that women with their managerial skills are excluded in corporate Boards. This has adversely affected the global economy and diminished investor's confidence on the reliability of financial information provided by companies. As a result, capital market regulators and academic researchers from different fields like accounting, Finance and management are of the opinion that these events could have been prevented if a considerable number of women were given the opportunity to run the affairs of the companies or at least made significant number of members of Board of Directors (Ferreira, 2015, Seiersted Warner-Soderholm, Torchia & Huse, 2015).

The society seems to refuse to accept that women have any other role to play apart from the traditional role of supporting a man. Companies with high female representation on their Boards have been empirically proved to have stronger corporate governance than those with fewer number of women on the Board and had significantly impacted on the firm's financial reporting responsibility and disclosure (Rosener, 2003). One view point on corporate governance has been that including more females in the Boards of Directors would improve corporate governance practice and financial information quality (Muhammad, Ayoib & Noor 2016). In actual practice, the serious question which remains unanswered is whether the presence of women Directors on Corporate Board influences Board decisions regarding quality and credibility of the financial report in quoted manufacturing firms in Nigeria. This is the` kernel' which this study set to crack. Hence the study gears to investigate whether the inclusion of Females in Corporate Boards has any effect on financial reporting quality of quoted Manufacturing firms in Nigeria. The remaining part of the paper is divided into four sections. Section two treats review of related literature, section three is the methodology adopted, section four deals with data analysis and five is on summary of findings, conclusion, and recommendations.

RELATED LITERATURE

Conceptual Review

The issues of Gender

The issue of Gender has always attracted considerable interest as an area of study that is complex, challenging and controversial. Historically what was understood as the meaning of Gender was assumed to be relatively clear. The multiple and contracting meaning attributed to sexual difference. In the last two decades, however gender has witnessed an increase in popularity encompassing a wide range of issues from a broader perspective. The consideration of gender is largely centred in biological sexual difference, whether a Chief Executive is male or female. Since accounting i.e. Financial Reporting Quality involves recoding and analysing the financial transactions and financial status of a business the possibility of gender being embedded in accounting becomes a substantive issue as it plays an important role in the outgrow of the organisation. The question remains as to whether accounting practice are subject to gender effect, such effect may be distributed to the difference between men and women and their gender characteristics.

The impact of gender within the functional area of accounting i.e. Planning evaluation and controlling has gender difference in approach i.e. leadership styles and skills attitudes and behaviour, performance measurement and evaluation etc., thus gender plays role in governing, planning evaluating and controlling.

Financial Reporting Quality Concept

Financial reporting quality, allows financial analyst to conduct a financial analysis and relationship among financial element and making comparisons with relevant information (Kariuki and Jagongo, 2013). It is a valuable tool used by investors and creditors. Financial analyst and others in their decision making processes related to stocks, bonds and other financial investment. The goal in analyzing financial statement is to access past performance and current financial position and to make predictions about the future performance of a company (Business and Finance Encyclopedia, 2001). The primary qualities that make accounting information useful for decision making are relevance and reliability. Accounting information is relevant if it is capable of making a difference in a decision, and for information to be relevant, it should have predictive or feedback due and it must be presented on a timely basis.

The importance of information is affected by its predictive value, confirmatory value, materiality, timeliness. The fundamental principal of any financial report lies on its under stability relevance, reliability and comparability. Quality in financial reporting is the hierarchy of hunting qualities with relevance and reliability.

Empirical Review

Damagum, Oba, Chioma and Ibikunle (2014) did a research on Women in corporate Boards and financial reporting Credibility-Evidence from Nigeria. The made use of Published Financial statement of 20 firms representing the various sectors of Nigeria stock exchange for a period of 2006-2011. The statistical tool employed for data analysis was multiple regression analysis of ordinary least square (OLS). The study revealed that the presence of female director does not particularly improve the quality of financial reporting.

Gull (2018) Investigated Gender-diverse Board and Financial statement quality: The role of Female directors attributes. The study made use of French firms belonging to the CAC- all shares index listed on Emonext Paris over the period of 2001-2010. Findings provide evidence of significant influence of female directors attributes on the financial statement quality.

Muhammad, Ayoib and Noor (2016) carried out a research on Female Directors and Financial reporting quality: Further evidence from Nigeria. The study made use of 101 firms of non-financial companies for the period from 2010 to 2014. The study employed the ordinary least square technique in analyzing the data. The result of the study shows that Board gender to be non-significant but positively associated with quality of financial reporting perhaps due to the negligible number on corporate boards.

Barua, Rama and Sharma (2010) examined the relationship between Female executive and accrual quality. They found that companies with female chief financial officers were more conservative in financial reporting practices.

Oba and Fodio (2013) examined a sample of 30 listed Nigeria companies between 2005 and 2007 and found that increased proportion of women directors have had a positive impact on Financial performance of Companies.

Bill, Iftekhar, Jong and Qung (2014) examined Gender difference in financial reporting decision –making .Evidence from Accounting conservation, they found out that female Chief financial officers (CFO) are more conservative in their financial reporting and also are averse than their male CFOs.

Sharitah, Norhasimah, Noor Raida and Faliman (2012) did a work on Board diversity and discretionary accruals of the top one hundred Malaysia corporate Governance (MCG) index. Data were obtained from annual report for 2008 of one hundred Malaysia corporate entities. The study revealed that presences of women on the board are found to have a positive significant relationship with discretionary accrual.

Emilia and Sami (2010) carried out a work on Female executive and earnings management using a sample of S&P 500 firms. The result of the study suggest that firms with female, Chief Financial Officer (CFO) are associated with income decreasing discretionary accruals, thereby implying that female Chief financial officers are more conservative in financial reporting strategies.

Sabina and Morten (2010) examined the contribution of women on Boards of Directors: Going beyond the surface, the study made use of 201 Norwegian firms. The study finds that the ratio of women directors is positively associated with Board strategic control. In addition it reveals that a positive effect of women directors on board effectiveness are mediated through increased board development activities and though decreased level of conflict.

Gap in Literature

After reviewing the related literature, this study identified some gap , in earlier studies in Nigeria, for instance Muhammad, Ayoib and Noor,(2006) used non financial companies from 2010 to 2014, and non financial companies as far as Nigeria is concerned do not have any impact on the Economy. The approach in this study is quite different in that we used only quoted manufacturing companies from 2006-2017, ie a total of eleven years and manufacturing companies are the backbone of every economy that is the gap this study want to fill.

Hypothesis

Ho_1 There is no significant relationship between Gender Composition and Financial reporting quality of quoted Manufacturing firms in Nigeria

Theoretical Review

This study is anchored on Agency theory. This theory has its roots in economic theory, and it was exposited by Alchian and Densed in 1972 and was further developed by Jensen and

Meckling (1976) defined agency relationship as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent, It facilitates the relationship between providers of corporate finance and those entrusted to manage the affairs of the corporation. The problem that agency theory try to resolve is that the agent tend to perform not as the principals expected they tend to act for self-interest rather than for shareholder's (ownership) interest (Clake, 2004). Agency theory was introduced basically as the ability of the shareholders to take the risk of employing the agent and the risk of employing other to monitor the agents, (Bhimani, 2008). According to agency theory the owners of the firm have to be able to reduce moral hazard problems possibly through finding other parties(Board of directors and Auditors) to monitor managers and the firm, also to motivate the Manager to work in the interest of the firm beyond of personal sentiments.

METHODOLOGY

Research Design

The research design adopted in this study is the *ex post facto* research design.

Data Collection

Annual time series data was employed ranging from 2006-2019 with a sample size of 10 quoted manufacturing companies, and Annual report published by the manufacturing Companies Selected. The rationale behind the selection of 2006-2019 base years was because the code of corporate governance would have being implemented by most companies. The manufacturing sector was chosen because of it nature in the economy of any nation.

Data Analysis Approach

In this study Accrual model was used as a proxy for financial reporting quality serves as the dependent variable. Accrual model was developed by Jones 1991 which is

$\Delta WC = CFO_{t-1} + CFO_1 + CFO_{t+1} + \Delta Sales + PPE + €$

Where ΔWC= Change in Working Capital in year t, ie ΔAccounts receivables +Δinventory – ΔAccounts Payable – Δtaxes payable + Δother assets (Net).

CFO_{t-1}= Cash flow from operation in year t-1

CFO_1= Cash flow from operation in year t

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

ΔSales= Sales in Year t less sales from Operation in year t-1

PPEt= Gross property, plant and equipments in the Year.

The Independent Variable is the Gender Composition which is computed as ratio of Female members to Male member in the Board of Directors of quoted manufacturing firms in Nigeria, Proxy for financial reporting quality is the accrual model which is calculated using Jones model.

The study made use of simple linear regression sine the explanatory variable (Gender composition) is one. The method of data analysis is Ordinary Least Square (OLS) technique. The statistical formation of the model is presented as follows:

FRQ = f (GC)

The simple linear relationship is stated thus:

$LOGFRQ=\beta+\beta_1$ LOG GC $+\mu$

Where:

FRQ- Financial Reporting Quality

GC- Gender Composition.

β- Intercept

β_1- Estimation of Coefficient

μ- Error term

Results and Discussions

Table 1. Model testing

Dependent Variable: FR
Method: Least Squares
Date: 02/04/19 Time: 13:28
Sample: 1 120
Included observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GE	-1931373.	10650083	-0.144724	0.4579
C	9409220.	1730133.	5.438437	0.0000

R-squared	0.104678	Mean dependent var	8670942
Adjusted R-squared	0.083757	S.D. dependent var	15503821
S.E. of regression	15532916	Akaike info criterion	35.97135
Sum squared resid	2.85E+16	Schwarz criterion	36.01781
Log likelihood	-2156.281	F-statistic	0.554614
Durbin-Watson stat	1.719857	Prob(F-statistic)	0.457919

The value for the coefficient for GE (i.e β_1) is -1931373, while the constant intercept, c is 9409220. The value of 9409220 for c represents what financial reporting quality without Gender composition.

The value -1931373 for β_1 implies that holding all other factors constant, a unit increase in GE (Gender composition) will lead to -1931373 decreases in financial reporting quality. The R^2 tells the percentage variation in financial reporting explained by Gender composition, the value 0.104678 means that about 10% of the total variation in the dependent variable is as a result of changes in the independent variables, while 90% is unexplained. This remaining percent could be caused by other factors or variables not built in the model.

Since the Durbin- Watson statistic is near 2, there is no evidence of first-order autocorrelation. This regression result shows that gender composition has non-significant effect on financial reporting quality of the manufacturing companies in Nigeria. It follows that the dilution of female 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.

CONCLUSION AND RECOMMENDATIONS

Among the factors affecting the recognition and harnessing of women potential at the top of boards is Nigeria socio-Cultural, political, and economic and education level. The study found Gender to be insignificant to financial reporting quality. Nevertheless, the study suggests a proportional increase in the number of female directors would lead to corresponding increase in the quality of financial reporting. The outcome of the study shows women directors do not have any influence in the boardroom over financial reporting quality. The study supports the ongoing agitation for more women participation on corporate boards, emphasising skills, professionalism, competences and financial expertise to impact meaningfully on the quality of financial reporting. According to Yau Mohammed et al if woman are involved in the boardroom discussion they will demonstrate that they are better equipped than men to oversee quality of financial report and as the number increase the quality and reliability of the financial statements.

Regulatory bodies like the Nigeria Stock Exchange and Financial Reporting Council of Nigeria should review and harmonize multiple codes with specific provisions enabling reasonable quota of female directors on corporate boards.

The study considered 10 listed manufacturing companies in Nigeria, Further research can be done by increasing the number of listed manufacturing to 25. Further research could be done on Manufacturing of Agricultural Product or perhaps unquoted manufacturing companies.

REFERENCES

Alchian, A.A. & Demsetz, H. (1972) Production Information Cost and Economic Organization. American Economic Review 62 pp772, 795.

Barua, A., Rama, D., & Sharma,V.(2010) Audit Committee Characteristics and Investment in Internal Auditing. Journal of Accounting and Public Policy 2a 503-513.

Bill,F., Iftekhar,H.,Jong, C.P., & Qiang, W..(2014).Gender difference in Financial Reporting Decision- Making Evidence from Accounting Conservatism. Bank of Finland Research Discussion papers.

Bhimani, A.(2008). The role of Crises in reshaping the role of Accounting. Journal of Accounting and Public Policy. 27 (6) 444-456.

Clarke, T. (2004). Introduction Theories of Governance- Reconceptualising Corporate Governance Theory after Enron Experience. Theories of Corporate Governance.

Damagum, Y.M.,Oba,V.C., Chima,E.B, & Ibikunle, J. (2014) Woman in

Corporate Bonds and Financial Reporting Credibility: Evidence from Nigeria. International Journal of Accounting and Financial Management Research vol. 4.

Emilia. P., & Sami, V. (2010) Female Executive and Earnings Management. Journal of Managerial Finance vol36 no7.

Ferreira, D., (2015) Board Diversity: Should we Trust Research to Inform Policy? Corporate Governance: An International Review, 23(2), 108-111.

Gull. A. A. (2018) Gender –Diverse Boards and Financial Statements Quality the role of Female Directors Attributes. Doctorate Thesis. University of Bretange Lorire.

Goudreau, J.(2011) Women Beat Men in Advanced Degrees. Forbes April 27, 2011.

Hillmn, A.J., Cannella, A.A., & Paetzold, R.L. (2000) The Resource Dependence role of Corporate Directors, Strategic Adaptation of Board Compositions in Response to Environmental Change .Journal of Managements Studies 37(2) 235-256.

Jensen, M. & Meckling, W. (1976) Theory of Firm: Management Behaviour. Agency Cost and Ownership Structure. Journal of Financial Economies 3(3) 305-360.

Kariuki, G. & Jagongo, A. (2013). Institutional Investor`s perception on Quality of Financial Reporting in Kenya. International Journal of Humanities and Social Science. Vol. 3 no.1.

Mohammd, U.K., Ayoib, C.A. & Noor,A.(2016) Female Director and Financial Reporting quality, further evidence from Nigeria. Australian Journal of Basic and Applied Sciences 10(9) pp140-147.

Oba, C. & Fodio, J. (2013) Corporate Governance Mechanism and Reported Earnings Quality in Listed Nigeria Companies. International Journal of Finance and Accounting Vol 2(5) 279-286.

PWC (2013) Mending the gender gap. Price Waterhouse coopers LLP (online) Available https://www.pwc.com/us/en/fincaial service.

Rosener, J. B. (2003). Women on Corporate Boards make Good Business sense. Directorship, Vol 29 no5 pp7-11

Rozmina, R. & Mwangi, M.W (2017) Impact of Board Gender Diversity on Profitability of Agricultural listed companies in Kenya 2008-2015. Research Journal of Finance and Accounting vol, 8 no10.

Sabina, N. & Morten, H. (2010). The Contribution of women on Boards of Directors: Going Beyoung the surface Corporate Governances. An International Review 2010. 18(2) 136-148.

Seirstd, C., Warner-Soderholm, G., Torchia, M., & Huse, M. (2015) Increasing the Number of Woman on Boards: The Role of Actors and Processes. Journal of Business Ethics, pp 1-27.

Sharitah,B.,NorHasimah, J.,NoorRaida, A.R.,& Fatimah,H. A.R. (2012). Board Diversity and Discretionary Accruals of the Top One hundred Malaysian Corporate Governance (MCG). Index Company. African Journal of Business Management. Vol 6(2a) pp 8496-8503.