



BOARD GENDER DIVERSITY AND FINANCIAL REPORTING QUALITY: EMPIRICAL EVIDENCE FROM NIGERIA

**Onatuyeh
Aruobogha Edwin***

B.sc, M.sc, MA, ACA, ACTI, FCCA, CPFA, MCIA, Department of Accountancy, School of Business Studies, Delta State Polytechnic, Ozoro, Delta State. *Corresponding Author

Proso Timothy

B.sc, M.sc, Department of Accountancy, School of Business Studies, Delta State Polytechnic, Otefe-Oghara, Delta State.

ABSTRACT

The significance of corporate boards in the discharge of their supervisory functions to firms' success cannot be overemphasized. However, the composition of such boards for effective performance has been criticised severally overtime. Studies have reported findings in support of the view that boards perform better when they are gender-diverse. Therefore, this study examines the correlation between board gender diversity and financial reporting quality with the aim of ascertaining whether the presence of women on corporate boards positively influences the quality of financial reporting by firms. While financial reporting quality was measured using the IASB qualitative characteristics model, we used the ratio of women board members to total board members, Blua diversity and Shannon diversity indexes as surrogates for gender diversity. Based on data gleaned from the audited annual reports of fourteen selected listed Nigerian Deposit Money Banks for the period 2013 to 2017, results of the system Generalized Method Moments (GMM) regression technique revealed a positive relationship between gender diversity on boards and quality of financial reporting by banks in Nigeria. However, the result of the study did not provide evidence of significant connection between board independence and financial reporting quality. This study concludes with a number of recommendations, including suggesting the need for firms to include more female members in the board as they tend to have a significant impact on the quality of decision making as well as bringing a new perspective to deliberation processes

KEYWORDS : Gender Diversity, Corporate Boards, Financial Reporting Quality, Iasb Qualitative Characteristics

1. Introduction

In the last two decades, the concept of financial reporting quality has attracted considerable research interest worldwide, especially after the series of occurrence of world-wide corporate scandals and failures, such as those of Enron and WorldCom in the United States, Parmalat in Italy, Lernout and Hauspie in Belgium, as well as Cadbury, NAMPAC, and Afribank in Nigeria (Adeyemi, Okpala & Dabor, 2012). These corporate collapses shook investors' confidence in the effectiveness of corporate board in promoting transparency and stewardship, thus stressing the need for improved measures to ensure that quality of financial information is enhanced, and firms are managed in a manner that guarantees the protection of the interests of corporate owners and other relevant stakeholders. The concern for quality financial reporting is due to the fact that financial reporting is a major means by which firms communicate financial information to owners and outside users (Kajola, 2008; Zhou & Chen, 2004). For this reason, it is important that financial statements disclose quality information so that decisions made by users based on them would be both qualitative and informed (Abubakar, 2011).

Studies have identified unethical accounting practices by managers as a key challenge to the quality of accounting and financial reporting (Bello, 2010; Shen & Hsiang-Lin, 2007). This is because managers take decisions on a number of accounting policies that underlie the preparation and presentation of financial reports, and they could be subjective in the way some of the accounting policies are applied, especially as it relates to the recognition, measuring and allocation of values to certain items of expenditure and revenues in the financial report. Because shareholders tend to focus more on accounting earnings than other items in the financial reports, managers will be inclined to manipulating earnings for the purpose of meeting investors' expectations (Pattaraporn, 2016). In their respective studies, Shen and Hsiang-lin, (2007) and Bello (2010) show that most managers of collapsed firms like Enron, Worldcom, and Parmalat were found to have been involved in earnings manipulation and related parties transactions, which affected financial reporting quality adversely.

Therefore, in view of the effects of the corporate failures on firms and national economies, governments across the globe had to take steps to put in place good corporate governance structure (Garba &

Abubakar, 2014). One of such steps taken was promoting corporate board diversity, with emphasis on making more women board members to foster board independence and efficiency. Abdullah and Valentine (2009) state that board gender diversity and ethnicity can improve board independence, organisational function, reporting quality and business prosperity. Adams and Ferreira (2009), Huse and Solberg (2006), Graham *et al.* (2002), and Srinidhi *et al.* (2011) all affirm that female directors are more independent in their decision making, more risk averse, less tolerant of unethical managerial activities and more committed to board meetings than male directors (Adams & Ferreira, 2009; Graham *et al.*, 2002; Srinidhi *et al.*, 2011). These distinctive attributes of the female directors give them the capacity of being able to monitor financial reporting process of a firm and influence its strategic direction positively (Obanya & Mordi, 2014).

This paper addresses two fundamental gaps in the literature. First, the dynamics of board gender diversity and financial reporting quality have not been sufficiently explored, even though several studies abound on the financial reporting quality phenomenon. The few existing studies include: Damagum, Oba, Chima and Ibikunle (2014), Kibiya, Ahmad, AfzaAmran (2016), and Mwangi, Oluoch, Muturi & Florence (2017). Secondly, a review of these few studies revealed a common theme, which is the use of proxies to measure financial reporting quality as against a direct measure, with the accrual method being the dominant tool. Except the qualitative characteristics model which provides a direct measure, all other tools (including the accrual model) have been criticized for providing an indirect measure for financial reporting quality (Mbobo & Archibong, 2016).

The implication of the above is that no empirical study exists anywhere, including Nigeria, which has examined the link between board gender diversity and financial reporting quality in which the IASB qualitative attributes model was employed to measure financial reporting quality. This is to the best of our knowledge. Although, some foreign studies (e.g. Herath & Albarqi, 2017; Mahboub, 2017; and Kythreotis, 2014) have applied the qualitative attributes model under different contexts, the only Nigerian study that has adopted this model was performed by Mbobo and Nweze (2015). However, their study was on the link between audit committee effectiveness and financial reporting quality. Therefore,

the essence of the present study is to explore the interplay between board gender diversity and financial reporting quality, using the IASB qualitative attributes model as a measure of financial reporting quality, with Nigeria as a reference point.

The remainder of the paper is organized as follows: following this introductory section, is a section on review of related literature. This includes the concepts of corporate board gender diversity and financial reporting, measuring quality in financial reports, and the relation between board gender diversity and financial reporting quality. Section 3 focuses on theoretical basis for the study. The methodology comprising the research design, measurement of variable and model specification, is presented in section 4. In section 5, the empirical findings of the study are presented and discussed. The paper ends in section 6 with conclusion and recommendations.

2.0 Literature Review

2.1 Board Gender Diversity

Gender diversity involves the process of taking advantage of diverse features and skills in a man and a woman that could bring benefits to the firm. Dutta and Bose (2006) identify the presence of women as the board of directors as a vital aspect of board diversity. Carter, Simskins and Simpson (2003) state that greater diversity may lead to increased board independence as women directors are more likely to ask questions that may not be asked by their male counterparts. For the purpose of this study, gender diversity is regarded as the proportion of women directors on corporate boards. In an effort to ensure that more women occupy top managerial and board positions, different countries have introduced diverse forms of actions, including legislations and quotas. For example, governments in several European countries have mandated European firms to formulate policies directed towards increasing their numbers of female directors (Collier, 2008; Huse, Nielsen, & Hagen, 2009; Terjesen & Singh, 2008).

The most widely acknowledged paradigm is the Norway gender quota system, where a 40% gender quota was introduced, as early as 2003, for both public and state owned firms (Hoel, 2008). Similar legislation was subsequently introduced in Spain, Netherland, Iceland and France (Marinova et al., 2010). In Nigeria, there are no such laws. The vision 2020 national technical working committee on corporate governance emphasized greater women participation in corporate governance matters, without mentioning specifics. It is therefore not surprising that the percentage of women who have reached corporate executive positions in Nigeria, compared to their male counterparts, is still very low (Abiola, 2004). A plausible reason for this disparity, as highlighted in the separate studies carried by Obi (2001) and Omotola (2007), is that women are regarded as the weaker sex and as a result have been estranged in the political, economic, and social arena. To get to top positions in various firms, women must overcome a number of hurdles ranging from cultural difficulties to coping with balancing family and career. Nonetheless, prior literature has demonstrated that considerable benefits can be obtained from having corporate boards with significant proportion of female members (Adams & Ferreira, 2004; Fodio & Oba, 2012). Rosener (2003) declares that firms with high female board representation are expected to have stronger corporate governance than firms with few or no women board members. The findings of Adams and Ferreira (2009) reveal that women are more likely to join committees (such as the audit, and corporate governance committees) that are charged with monitoring responsibilities than committees that are not. Also, the presence of female in corporate boards promotes more effective board communication to shareholders, and increases the dissemination and quality of firm-specific information (Joy, 2008; Nalikka, 2009; Srinidhi et al., 2011). Although, these studies advocate for the increase in the number of women in top corporate positions, Mychasuk (2010) questioned the effectiveness of quotas in helping women in climbing corporate ladder, as an increase in the number of female board members over time will not necessarily translate into an increase in the number women in top managerial positions.

2.2 Financial Reporting Quality

Financial reporting quality has been defined in numerous ways. Verdi (2006) defines financial reporting quality as the manner by which information is expressed regarding business activities with the purpose of informing owners about a firm's operations. Tang, Chen and Zhijun (2008) see financial reporting quality as the extent to which financial statements present information that is considered fair and reliable about a firm's financial position and performance. However, a more universally accepted definition of the concept is attributed to Jonas and Blaurchet (2000) who defined financial reporting quality as complete and explicit information that is not designed to mislead users. The major objective of financial reporting is to provide useful accounting information on the business activities of a reporting entity to enable shareholders, lenders, loan payables and other relevant stakeholders to make decisions in their capacity as capital providers (IASB, 2006; IASB, 2008). Compliance with this objective is not only vital to the development of financial accounting theory and practice, but also will enhance financial reporting quality (Cyert, 2009; IASB, 2006; Kirk, 2010). Financial reporting is deemed to be of high quality when financial reports reflect the true and fair financial position and performance of a firm in consonance with relevant accounting standards (Kusnadi et al., 2016; Marti & Kasperskaya, 2015).

While researchers, practitioners and regulators always seek ways to guarantee financial reporting quality, identifying an appropriate measurement tool and how 'quality' should be measured appears to be quite challenging (Pomeroy & Thomson, 2008). The accrual method usually based on the concept of earnings management and which was given prominence by the seminal work of Jones (1991) has been the dominant model used to proxy for financial reporting quality (Bajra & Cadez, 2017; Ecker et al., 2013). The model examines the degree of earnings management as a proxy for earnings quality, and considers the presence of earnings management as an indication of poor financial reporting quality (Van Tendeloo & Vanstraelen, 2005). Other methods include elements of annual reports model (Hirst, Hopkins & Wahlen, 2004), value relevance model (Nicholas & Wahlen, 2004) and qualitative characteristics model. All these tools, including the accrual model, have been criticized for providing an indirect proxy for measuring financial reporting quality.

In spite of the advantage of a direct measure of financial reporting quality the qualitative characteristic model offers, and being strongly rooted in the international financial reporting standards (IFRS), many researchers still choose to employ the indirect method, with much emphasis on the discretionally accrual tool, to proxy for financial reporting quality. If this is not on account of the lack of knowledge of this new model, then it can be attributed to the inability to operationalise the qualitative characteristics of the IASB framework to measure variables in annual financial reports. The qualitative characteristics are divided into fundamental (comprising relevance and faithful representation) and enhancing (comprising comparability, timeliness, understandability and verifiability).

2.3 Board Gender Diversity and Financial Reporting Quality

The presence of female members on corporate board leads to gender diversity. Extant literature has shown that women are more predisposed to follow the rules and regulations than men; especially those relating to financial decisions, and thus are more likely to be placed in sensitive positions in firms during periods of financial downturn (Bernardi & Arnold, 1997; Rynan & Haslam, 2005). This implies that shareholders may view the presence of women on the board as a sign of potential significant change, making them to have confidence in the success and financial reporting process of the firm (Julizaerma & Sori, 2012). Numerous studies have been conducted to provide insight on gender diversity in corporate boards and its link to financial reporting quality. But, results obtained so far vary.

Srinidhi et al (2011) found that the presence of female directors on corporate boards has positive effects on earnings quality in a US

setting. Krishnan and Parsons (2008) discovered that firms having more female senior managers performed better and become more profitable than those with fewer females. Furthermore, using 30 listed Nigerian firms over a 3-year period as sample, Oba and Fodio (2013) found that the increased percentage of female directors had a positive effect on their financial performance and earnings quality. Earlier, Barua, Rama, and Sharma (2010) investigated the connection between female executives and accruals quality, and found that firms having women as chief financial officers were more prudent in their financial reporting practices than those without female executives.

In contrast, the findings of Wang and Clift (2009) revealed no strong relationship between board gender diversity and financial performance, although the researchers assumed that the outcome of the result would have been altered by the few female directors included the study sample. Similarly, in a study of the connection between female directors and firm performance, Matsa, Miller, and Bertrand (2011) could not establish any statistically significant correlation between both variables. They attributed this to the lack of professional and talented women in certain sectors and specialization. They found that female directors may have specific skills that are more relevant in some environments and industry. This implies that female directors without the right professional skill and experience may not be influential in their firms; hence we conjecture that under certain conditions, there may not be link between board gender diversity and financial reporting quality. The mixed results regarding the impacts of board gender diversity, as shown above, may be due to the fact that these studies were performed at different timeframes and in different countries under different corporate governance structures. Accordingly, generalizing research findings obtained under different settings and conditions may be misleading. Hence, we propose that:

H₁: The presence of female directors on corporate boards will not have a positive influence on financial reporting quality.

2.4 Board Independence and Financial Reporting Quality

The issue of having female directors in corporate boards may be linked to more a general issue of independent non-executive directors (Fields & Keys, 2003). This is due to the assertion that performance increases when independent outside directors are included in the board of directors (Duchin *et al.*, 2010). Board independence means the number of independent non-executive directors on the board in relation to the total number of directors. Independent non-executive directors have no connection with a firm except for their directorships (Clifford & Evans, 1997). In this study, we define board independence as the percentage of the total number of non-executive directors on corporate boards. The requirement of 2016 code of corporate governance on board composition, issued by the Financial Reporting Council of Nigeria, is that the number of non-executive directors on the board shall not be less than two-thirds of the board and the number of independent non-executive directors shall not be less than half of the number of non-executive directors.

Many researchers have investigated the relation between board independence and financial reporting quality and the results are mixed. For instance, Byard and Weintrop (2006), and Cheng and Courtenay (2006) all found that financial reporting quality improves with the increase in proportion of outside or independent directors. In a different study, Firth, Fung and Rui (2007) documented that the presence of independent directors improves the earnings quality of Chinese firms. The result of the study carried by Dimitropoulos and Asteriou (2010) using a sample of Greek firms also confirmed this finding. This means that the corporate board with significant number of non-executive independent directors will be efficient in ensuring firms' compliance with the disclosure requirements, which will help improve the scope and quality of financial reporting. On the other hand, Chakroun and Hussainey (2014), Al-Asiry (2017), Asegdew (2016) and Fathi (2013) all found an insignificant connection between board independence and financial reporting

quality. The findings of these researchers indicate that that board independence does not lead to high quality financial reporting. Based on the above, we propose the hypothesis that:

H₂: The presence of independent non-executive directors on corporate boards will not have a positive influence on financial reporting quality.

3.0 Theoretical framework

The theoretical basis for this study is the agency theory which originated from the association between the principal (owners) and the agent (managers). Financial reporting concerns occur when the interests of managers do not align with those of owners (shareholders), which could lead to information asymmetries (Barac & Klepo, 2006). In the absence of agency problem, preparation of credible or high quality financial reports will not be an issue as managers will not have any incentive to hide or manipulate financial information. The essence of having diverse corporate boards with more female directors is to make boards to be much more effective in the discharge of their supervisory functions, including reducing the agency problems that often exist between managers and shareholders. According to Hassan (2011), an effective board should lead to high financial reporting quality. Conversely, weak or ineffective board structures may provide an opportunity for managers to engage in opportunistic activities, which eventually will encourage creative financial reporting via earnings manipulation. Jiang, Petroni, and Wang (2008) opine that corporate governance is critical to better financial reporting, and suggest that higher levels of corporate governance (e.g. board gender diversity) are associated with lower earnings manipulation and higher financial reporting quality. Therefore, based on the agency theory, the link between certain exogenous and endogenous variables was considered with a view to investigating the effect of corporate board gender diversity on financial reporting quality.

4.0 Methodology

4.1 Population and Sample

This study seeks to examine the effect of board gender diversity on financial reporting quality in Nigerian banks. In order to achieve this, a content analysis research design was adopted. The population of study consists of all 26 deposit money banks listed on the Nigerian Stock Exchange (NSE) as at 31st December, 2016. Using filtering method, a final of sample of fourteen (14) banks was selected based on data accessibility and financial healthiness as determined by the Central Bank of Nigeria (CBN). The study covers a period of 5 years from 2013 to 2017. This period was chosen because Nigerian banks adopted the international financial reporting standards (IFRS) in year 2012, and so suits the operationalisation of the IASB qualitative characteristics method.

4.2 Measurement of variables

Three sets of variables are used in the econometric models applied in this study, namely endogenous, exogenous, and control variables.

Endogenous Variable

The endogenous variable in this study is financial reporting quality. This variable was measured using the IFRS qualitative characteristics issued by the International Accounting Standards Board (IASB). The qualitative characteristic method was chosen among other methods since it is capable of assessing the quality of financial and non-financial reporting information in corporate annual report considering every useful aspects of decision making as contained in the Conceptual Framework for Financial Reporting' (Van Beest *et al.*, 2009). Data relating to the qualitative characteristics of the IASB framework were extracted from annual reports of selected deposit money banks for the period 2013 to 2017 using a constructed 22 items measurement checklist adapted from both Beest *et al.* (2009) model and IASB (2008) framework. The checklist was designed in a five-point Likert scale format, such that an item which satisfies the IFRS qualitative characteristics to a very large extent was allocated the value of '5'; if it is satisfied to a large extent, the value of '4' was allocated; if satisfied to a little extent, the value of '2' was allocated; if

satisfied to a very little extent, the value of '1' was allocated. But if it is neutral, the value of '3' was allocated.

To assess the quality of financial reporting we follow the following steps. First, we subject the survey measurement scale to validity and reliability tests using Cronbach's alpha. The value for Cronbach's alpha was 0.876, which is above the required threshold of 0.70 (Bernardi, 1994). This suggests that the quality scores are reliable. Second, we compute a sub score for each qualitative characteristics of the individual corporate annual report. The sub score equals total score of the relevant items for each qualitative characteristic scaled by total number of items for each qualitative characteristic. Finally, we compute a total score for financial reporting quality of each individual annual report, such that the total score equals total score of all relevant items of the qualitative characteristics scaled by 22. The qualitative characteristics model is, therefore, presented as follows:

$$FRQ_{it} = f(RL_{it} + FR_{it} + UN_{it} + CM_{it} + TM_{it} + \epsilon_{it}) \dots \dots \dots (1)$$

Where:

- FRQ_{it} = The Fundamental and Enhancing qualitative characteristics of financial reports for deposit moneybank i in year t
- RL_{it} = Relevance characteristic scores for bank i in year t
- FR_{it} = Faithful representation characteristics scores for bank i in year t
- UN_{it} = Understandability characteristic scores for bank i in year t
- CM_{it} = Comparability characteristic scores for bank i in year t
- TM_{it} = Timeliness characteristic scores for bank i in year t
- ε_{it} = Error term in year t.

Exogenous Variables

Different studies have measured board gender diversity in diverse ways. However, the proportion of women directors on the board is a common measure used to determine the presence of women on corporate boards, and this is calculated as the number of women board members scaled by the total number of directors. This traditional measure does not seem to be a true measure of board gender diversity as corporate boards are made up of both male and female directors. The maximum value of a board comprising women only will reflect homogeneous and not heterogeneous board. Consequently, to determine whether or not corporate boards are gender diverse, we calculated two additional measures: a measure of 'variety' and a measure of 'balance' to add robustness to our results (Martin-Ugedo & Vera, 2014; Stirling, 1998). While the former measures whether corporate boards consist of both genders or not, the latter measures the extent to which men and women are evenly represented on corporate boards. The measure of 'variety', called the *BLAU* diversity index (*BLAU*), is calculated using the following:

$$BLAU = 1 - \left(\sum_{i=1}^n P_i^2 \right) \dots \dots \dots (2)$$

where *P_i* represents the proportion of female board members. The values vary between 0 and 0.5. Diversity is maximised at the point the percentage of male and female board members are equal. The measure of 'balance,' called the *SHANNON* diversity index (*SHANNON*), is calculated using the following:

$$SHANNON = 1 - \left(\sum_{i=1}^n P_i \ln P_i \right) \dots \dots \dots (3)$$

where *P_i* is calculated as in the case of the Blau diversity index. In the *SHANNON* diversity index, the values range from 0 to 0.69, with the higher figure indicating the most likely level of diversity. Unlike the *BLAU* diversity index (*BLAU*), the *SHANNON* diversity index is more responsive to small changes in board gender diversity because it is a logarithmic measure. Diversity indexes attain maximum values when the number of women and male directors on corporate boards are evenly spread. Since the percentage of women directors on the board is generally low, it is hard to find corporate boards having women directors as majority. Hence, diversity indexes are mere complementary measures of diversity and not alternatives. The measures of diversity adopted in this study are analogous to those used by Abad et al. (2017).

Control Variables

In order to measure the influence of other external factors that can be responsible for any inconsistency in the link between corporate board gender diversity and financial reporting quality, there was the need for the introduction of control variables. The control variables selected in this study are firm size and firm leverage. These variables were selected not only because they have been commonly used in the literature, but also have demonstrated to have differing effects on financial reporting quality (Foo & Zain, 2010; Prommin, et al., 2014)

Firm Size

Firm size means the size of an organisation. Results of studies on the connection between firm size and financial reporting quality are mixed. Studies performed by Street and Bryant (2000), Mangena and Tauringana (2007), Haji and Ghazali (2013) as well as Ebrahimabadi and Asadi (2016) showed that large firms are more likely to report high quality information since they are more subjected to scrutiny by government and relevant regulatory bodies than small firms. Barbu et al. (2014) discovered that shareholders and the larger society expect bigger firms to disclose more quality information than smaller firms since they have the capacity to do so. Conversely, other studies, including those of Takhtaei and Mousavi (2012), documented a negative relationship between gender diversity and financial reporting. Specifically, Abdul Majid and Ismail (2008) reported that smaller firms have the incentive to disclose more information so as to remain competitive and earn public confidence. Moreover, Al-Asiry (2017) found an insignificant link between firm size and quality of financial reporting. Firm size is measured as the natural logarithm of the carrying value of total assets of the firm (Grant, Taylor & Lanis, 2013; Larcker and Richardson, 2004)

Firm Leverage

Firm leverage is commonly used to proxy for the agency costs of financial debt and it is measured as total long-term debt scaled by total assets (Arshad, Satar, Hussain & Naseem, 2011). Many studies on the link between firm leverage and financial reporting quality have reported a positive relation (Deumes & Knechel, 2008; Elshandidy et al., 2011; Kim & Yang, 2014; Karami & Akhgar, 2014; Shehu & Farouk (2014; Taylor et al., 2010; Uyar et al., 2013). These results demonstrate that highly levered firms are forced to disclose more reliable information in order to satisfy their payables (Zare et al., 2013). As highly levered firms are likely to be subjected to more agency costs, it therefore follows that a positive relationship exists between firm leverage and financial reporting quality (Murcia, 2010). Quite the opposite direction, studies have reported an inverse or negative relationship between firm leverage and financial reporting quality (for instance, Connors & Gao, 2011 and Monday & Nancy, 2016). The position of these studies is that highly levered firms are more likely to disclose fewer public information. Research findings of studies carried out by AL-Asiry (2017), Haji and Ghazali (2013), and Khlif and Souissi (2010) provided strong evidence that firm leverage does not significantly enhance quality of financial reporting. Therefore, the results on the association between firm leverage and financial reporting quality are also mixed.

4.3 Research Schema and Model Specification

Flowing from the extant literature and theoretical framework above, a schema showing the link between board gender diversity and financial reporting quality is presented as follows:

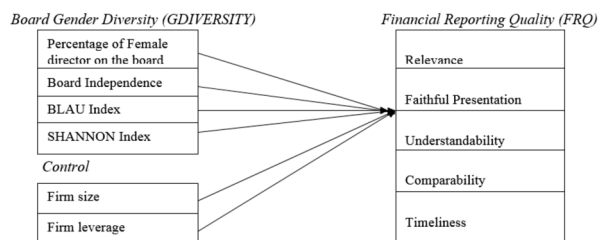


Figure 1: Research Schema

Against the backdrop above, the relationship between board gender diversity and financial reporting quality may be captured in a functional form as:

$$FRQ = f(PWOMEN, BIND, BLAU, SHANNON, FSIZ, FLEV) \dots \dots \dots (4)$$

In econometrics form, equation four is expressed as follows:
 $FRQ_{it} = \beta_0 + \beta_1 PWOMEN_{it} + \beta_2 BIND_{it} + \beta_3 BLAU_{it} + \beta_4 SHANNON_{it} + \beta_5 FSIZ_{it} + \beta_6 FLEV_{it} + \epsilon_{it} \dots \dots \dots (5)$

Where: FRQ = financial reporting quality; BIND = board independence; BLAU = Blau diversity index; SHANNON = Shannon diversity index; FSIZ = firm size; FLEV = firm leverage, i = the firms; t= time period and ϵ_{it} = the random variable. It is expected that $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 > 0$ based on extant studies and existing theories.

5.0 Empirical Results and Analysis

5.1 Descriptive Statistics

This section presents descriptive statistics of the endogenous, exogenous and control variables of the study. This includes the mean, standard deviation, minimum and maximum value as shown in table 1 below. The table indicates that financial reporting quality (FRQ) has a mean value of 81.972, which is an absolute value of the addition of the computed standardized scores of 22 items comprising the fundamental and enhancing qualitative characteristics, measured on a five-point scale. Against an expected mean score of 110, the mean figure of about 82 suggests that the quality of financial reporting of the sampled Nigerian deposit money banks is reasonably high. Also, as reflected in the table, 30% of the non-executive directors on the boards of the sample banks represent independent non-executive directors. This is somewhat below the requirement of the CBN 2014 code of corporate governance, which stipulates that the percentage of independent non-executive directors should be 40% of the number of non-executive directors.

Table 1: Descriptive statistics of variables

Variables	Mean	Std deviation	Maximum	Minimum
Financial reporting quality	81.972	11.743	98.000	36.000
Percentage of women on board	0.067	0.113	0.220	0.002
Independent non-executive directors	0.302	0.208	0.691	0.348
Blau diversity index	0.078	0.124	0.382	0.000
Shannon diversity index	0.133	0.187	0.596	0.000
Firm size	8.854	0.356	9.573	8.208
Firm leverage	0.176	0.129	0.370	0.016

Concerning the level of gender diversity measures, the proportion of women on boards is quite low with a mean of 6.7%. Compared to most developed countries in Europe, especially Norway, that now have legislations for gender quota, this value is very low. Nevertheless, there are some the banks with reasonable proportion of women in their boards as the maximum value in our sample is 22%. The averages of the Blau and Shannon indexes are 0.08 and 0.13 respectively, signifying a high degree of dispersion in the gender diversity of the boards of the banks, thus adding to the robustness of our result on the measure of gender diversity. Also, the control variables demonstrate a considerable measure of dispersion in their values showing the heterogeneity of the firm-year observations of the study.

5.2 Regression Analysis

Due to the intrinsic limitations of descriptive analysis which obfuscate the possibility of either drawing general conclusions about firms outside the sample or the same firms over a different time period, we use regression analysis as a remedial measure. The regression technique adopted in this study is the system Generalized Method Moments (GMM) technique. This technique is superior to the other techniques in controlling endogeneity bias

(López-Gutiérrez et al., 2015; Uotila et al., 2009), especially when working with samples of short time frame (Arellano & Bond, 1991) as in the case of this study. The GMM regression methodology overcomes the problem of heterogeneity as well. The estimation of fixed effects solves the problem of heterogeneity bias, but not the problem of endogeneity that can occur when the exogenous and endogenous variables are combined in reciprocal order (Martin-Ugedo & Vera, 2014). The results of the regression, based on the equation developed for the present study, are presented in table 2 below:

Table 2: System GMM regressions on the link between gender diversity and reporting quality.

Variable	Model 1	Model 2	Model 3	Model 4
PWOMEN	0.024 (2.40)			
BIND		0.002 (2.14)		
BLAU			0.018 (1.57)	
SHANNON				0.016(2.71)
FSIZE	0.016** (6.10)	0.015** (6.19)	0.019** (6.01)	0.014** (4.44)
FLEV	0.009* (4.83)	0.005* (5.67)	0.008* (7.21)	0.006* (4.99)
Intercept	0.0112*** (9.64)	0.0110*** (15.33)	0.0124*** (9.78)	0.0118*** (13.49)
R ₂	1.387	1.967	1.459	1.614
X ₂	11.62	12.19	10.81	11.98

Note: for each coefficient, t – value is shown in parenthesis. *Significant at 10% level, **Significant at 5% level and ***Significant at 1% level, all based on 2-tailed tests. X₂- test of exogenous variables.

Table 2 presents the system GMM regression results of the connection between board gender diversity and the quality of financial reporting in Nigerian deposit money banks. The result in Model 1 suggests that the percentage of women on boards (PWOMEN) has a positive effect on financial reporting quality. The same result was obtained when we employed the Blau and Shannon indexes to investigate the extent to which the boards of the banks are gender-diversed, thus adding to the robustness of our result. These findings imply that higher board gender diversity causes corporate boards to be effective, which in turn, improves financial reporting quality. Accordingly, hypothesis one, which states that the presence of female directors on corporate boards will not have a positive influence on financial reporting quality is not supported. This result is consistent with those of Srinidhi, et al (2011) and Barua, et al (2010).

The coefficients of control variables included in four regression models generally exhibited the expected signs according to extant literature. For instance, the coefficients on firm size (FSIZE) are positive and significant at 95% confident level. This result is in line with the findings of Ebrahimabadi and Asadi (2016), and Haji and Ghazali (2013) who argued that large firms are more motivated to report high quality information because of the scrutiny to which they are subjected by government regulatory agencies. Also, the coefficients on firm leverage (FLEV) are positive and significant, but at 90% confident level. One plausible reason for this positive relationship is that highly levered firms, as documented by Zare et al. (2013), are forced to disclose more reliable information for the purpose of satisfying their payables (loan or trade). However, contrary to expectation, the percentage of independent non-executive directors (BIND) shows no significant effect on financial reporting quality, thereby up holding our second hypothesis which states that the presence of independent non-executive directors on corporate boards will not have a positive influence on financial reporting quality. Similar to this finding, Chakroun and Hussainey (2014), Al-Asiry (2017), Asegdew (2016) and Fathi (2013) all found no evidence of significant connection between board independence and financial reporting quality. As per the descriptive statistics, if the independent non-executive directors constitute 30% of the non-executive directors on the boards of the banks, and the level of gender diversity measures just about 7%, it therefore means that

the number of women as independent non-executive directors is only about 2%, which is quite low. The effectiveness of the independent non-executive directors on the board regarding the financial reporting processes of the banks may have been hampered by the few women.

6.0 Conclusion and Recommendations

This paper examines the relation between gender diversity on the board of directors and financial reporting quality in Nigeria. We measure financial reporting quality using a method that operationalises the IASB qualitative characteristics as against the accrual method which has been the most dominant tool in prior studies. We used the ratio of women board members to total board members, Blau diversity and Shannon diversity indexes as proxies for gender diversity. We present evidence for our prediction using a sample of Nigerian listed banks over a five - year period from 2013-2017. Based on past research findings which suggest that gender diverse boards increases the quality of financial reporting by firms, and women directorship leads to corporate board effectiveness and organisational success, we hypothesize a positive link between board gender diversity and financial reporting quality amongst deposit money banks in Nigeria.

However, the present study could not establish a positive correlation between gender diversity and financial reporting quality, perhaps due to the few members of female and independent non-executive directors on the boards of the studied banks. Therefore, study recommends that women participation in corporate boards in Nigerian banks should be encouraged by the governments at all levels. Finally, despite the strength of this study, we should be careful about the relevance of the results of our study due to the following limitations. First, the study focused on fourteen (14) money deposit banks in Nigeria. Although chosen based on availability of data, a sample size of only fourteen banks will hardly truly represent all the banks in the country. Secondly, the result of this research may not be applicable to the non-banking institutions as they were not part of the study. Although, there are studies in extant literature that have investigated the relationship between board gender diversity and financial reporting quality, our study adds new evidence to the existing research on the present topic based on empirical evidence from a developing country like Nigeria.

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