



INFLUENCE OF FIRM ATTRIBUTES ON FINANCIAL REPORTING QUALITY OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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ABSTRACT

The article looked into the influence of a firm attributee on the financial reporting quality of publicly traded consumer goods companies in Nigeria for the period of ten (10) years 2011 to 2020. Twelve companies were selected using the random sampling technique. The information for the study was gathered from the annual reports and financial statements of the sampled companies, and the results were analyzed using descriptive statistics, correlation coefficients, and multiple regressions, all of which were performed using the STATA software version 12.00. The study found positive and significant effect of board composition on financial reporting quality and firm growth on financial reporting quality in the Nigerian quoted consumer goods companies. The study recommends that independent or non-executive directors don't play a direct role in the management activities of companies, an increased proportion of the independent or non-executive directors on the board may provide a more effective monitoring tool to the board and therefore produce higher financial reporting quality.

Keywords: Financial reporting quality, Board Composition, Firm Growth

1. INTRODUCTION

Financial reporting quality indicates over some time, a general measure of a company's total results on a financial basis. Financial reporting is the way of providing quality financial reporting information about a company's economic condition and financial activities while adhering to certain qualitative features. The financial statement of a company is supposed to reflect the company's operational achievements and It contains facts that can help different investors make informed



economic decisions regarding their investments. To achieve high accounting profit quality, the standard setters must ensure that it appropriately reflects the authentic and fair picture or reality of the company. In contrast, low-quality financial statements may not be meaningful for decision-making. Investors both inside and outside of a company use the financial statement to communicate with one another. The financial statement is vitally significant to shareholders, the general public, government agencies, and financial institutions as well as to consumers and customers (Herly, 2015).

Saheed (2013) defines financial report quality as "transparent financial information provided so as not to deceive financial users. Financial reporting quality enhances bank financing and at the same time has a positive impact on the investment of firms (Liao, & Hsu, 2013). There has been some investigation into the impact of structural factors on financial reporting (Olowokure, et al., 2016). After developing a model for loan loss provisions and obtaining residuals, the researchers discovered that there was no indication of a significant association between firm size and financial reporting quality. In the multiple regression analysis, the residuals, which are referred to as anomalous loan loss provisions, were employed as the dependent variable. In Nigeria, financial regulatory bodies are responsible for ensuring the accuracy and utility of financial statements for decision-making, as well as restoring public confidence in financial reporting quality. As a result, to make a good investment selection that will yield future cash flow and risks connected with such an investment, investors must have sufficient financial knowledge (Grace & Ambrose, 2013). Therefore, unlike the previous research mentioned above, this study seeks to quantify the financial reporting quality of a firm in conjunction with board composition and firm growth, resulting in a more concise evaluation of firm financial reporting quality.

The study objectives

Specifically, the primary goal of this research is to investigate the relationship between firm attributes and the financial reporting quality of publicly-traded consumer products companies in Nigeria. As a result, the specific goals are as follows:

- i. To examine the effect of board composition on the quality of financial reporting of quoted consumer goods companies in Nigeria.
- ii. Ascertain the influence of firm growth on the quality of financial reporting of quoted consumer goods companies in Nigeria.



As stated in the objectives, the following hypotheses are presented in the null form to guide the research:

- i. Board composition does not affect the financial reporting quality of quoted consumer goods companies in Nigeria.
- ii. There is no significant relationship between firm growth and the financial reporting quality of publicly-traded consumer products companies in Nigeria.

2. LITERATURE REVIEW

Kirubel (2016) investigated the factors that can influence the overall quality of financial reporting in large industrial enterprises in Addis Ababa, using a simple random sample method to pick fourteen (14) companies during five years with 70 observations. According to the study, investors should conduct a thorough investigation into the “internal control” of underperforming and large firms to assess and enhance their financial reporting quality.

Dioha, Mohammed, and Okpanachi (2018). Examined disclosure in the corporate annual reports of Japanese firms. Variable was adopted and listing status like size, type of industry, and multiple listing are the “independent variables” and disclosure index as the “dependent variable”. The result of their studies reveals that disclosure increases in proportion to the firm's size. Companies in Bangladesh were investigated by Hassan and Hosain (2015) to determine the breadth and level of required and voluntary disclosure practices in the country. It looked at a sample of 54 publicly traded companies in Bangladesh for three years, from 2010 to 2013. Using panel data regression analysis, the researchers discovered that the size of the company did not affect mandated disclosure.

Adegboye, Muhammad and Hanga (2019) investigate the relationship between company characteristics and the financial reporting quality of consumer products companies in Nigeria. Twelve companies were deemed to be a subset of the whole population of consumer products in Nigeria, and multiple regression was used to examine the relationship between firm features and financial reporting quality in these companies. A major impact on financial reporting quality is demonstrated by the findings of the study, which reveal that firm size has no significant impact on it while board composition, firm growth, and profitability all have large impacts on it.



According to Leilina (2015), theory, intuition, and empirical investigations all show that the size of a company has a beneficial impact on the quality of financial reports. Olatunji and Fakile (2012), on the other hand, acknowledge that, despite overwhelming evidence pointing to a favorable association between business size and financial statement quality, the theoretical basis for this relationship is still unknown. The arrow can point in either a good or negative way. Bassiouny, Soliman, and Ragab (2016), on the other hand, investigated the impact of firm characteristics on information disclosure across publicly traded companies in Egypt, and their findings were published in 2016. They chose 50 companies that are currently in operation. From 2007 to 2011, they based their financial accounts on those contained in the disclosure book. The random effect generalized least square regression model was employed in this study. The findings demonstrate that the size of a company has a negligible link with the disclosure of financial information.

Based on the empirical review, it can be concluded that company characteristics cause inconsistent results across the many entities analyzed in different countries. From the foregoing research and previous investigations, it was clear that there were contradictions. Furthermore, it is suggested that several measures of financial reporting quality, such as business growth, firm size, and board makeup, are being overlooked. For this reason, this study tries to address an empirical gap by analyzing the relationship between firm characteristics and financial reporting quality of publicly traded consumer products businesses in Nigeria. The idea of agency, on the other hand, is the theoretical foundation for this inquiry. This theory was chosen because it provided a better explanation of earnings quality practices and firm features, as well as the ability to anticipate the success of the firm.

3. METHODOLOGY

The paper adopts an ex-*post* facto research design as data was sourced from existing annual reports of the sampled companies, using secondary method. Ex-*post* facto research design described how the dependent variable is affected by the independent variables. The population of this study comprises twelve (12) quoted consumer goods companies that were publicly traded on the Nigerian Stock Exchange as of December 31, 2020. The study covered the period of ten (10) years from 2011 to 2020. The time range of 2011 to 2020 was chosen for the study since 2020 was the year following the general election, when individuals and corporate bodies would begin to adjust to the new government policies and styles in effect at that time. Random sampling technique was adopted using filtering method. The criteria for choosing the sample



size is; the companies whose accounting year end in December and also listed on the Nigeria stock exchange by 2011 to enhance comparability. This is in line with the study of Shehu and Bello (2013). Multiple regressions were used to analyze the data. The dependent variable which is financial reporting quality and independent variables include: Board composition and firm growth.

The model for the empirical investment is therefore given below:

$$FRQ = \beta_0 + \beta_1 BC_{it} + \beta_2 FG_{it} + e$$

Where:

FRQ = “Financial Reporting Quality”

β_0 = “Intercept”

β_{1-2} = “Coefficient of the independent variables”

i = “firm or company”

t = “year”

BC = “Board Composition”

FG = “Firm Growth”

e = “Residual or error term”

Financial reporting quality

The financial reporting quality of quoted consumer goods companies in Nigeria, which is the dependent variable, would be measured using the discretionary accounting accruals (*data*). It is apparent from prior research that total accruals are usually dichotomized into accruals that emanate from managerial discretion (discretionary) and those beyond their discretion (nondiscretionary). (Roberto & Silvio, 2014). The dichotomization for the firm “*i*” in period “*t*” can be summarized as follows:

Where: $TAA_t = DAA_t + NDAA_t \dots \dots \dots i$

TAA_t = Total Accounting Accruals of the company in period “*t*”

DAA_t = Discretionary Accounting Accruals of the company in period “*t*”



$NDAA_t$ = Non-discretionary Accounting Accrual of the company in period “t”

Board Composition (BC)

The proportion of independent or non-executive directors on the board compared to the total number of directors was used to determine the composition of the board of directors. The independence of the board is the primary priority while deciding on the board's makeup. The board of directors is made up of both executives and non-executive directors, depending on the company's needs.

Firm Growth (FG)

The change in total revenues each year was used to determine the amount of growth experienced by the company. A company's growth is used to analyze whether or not the company's financial situation is improving or deteriorating. The annualized comparison of two or more measured events with those occurring at a comparable time is accomplished through the use of the annualized comparison method (Ibrahim, 2014).

Regression Diagnostics

To ensure accurate results and avoid misleading or incorrect inferences from multiple regression analysis, some tests would be carried out on the data to ascertain the level of data compliance with the linear regression model. Precisely, the test is to be carried out on data to determine the degree of heteroskedasticity, normality, and multicollinearity.

For testing for multicollinearity, the values of the tolerance and variance inflation factors (VIF) were also calculated. To analyze multicollinearity between the independent variables, tolerance and VIF values are two advanced methods that can be used. A strong indication of the presence of multicollinearity, according to Gujarati (2004), can be found when the VIF of the variables is greater than 10 and the tolerance values are greater than 1.

To determine whether or not the variability of the error terms is constant, a test for heteroskedasticity was carried out on them. As a result, the presence of heteroskedasticity indicates that the variance of the residuals or error term is not constant, and this will have an impact on inferences made about the beta coefficients, coefficient of determination (R^2), and the F-statistic of the study, among other



statistics. The F-statistic tests developed by Breusch-Pagan and Cook Wiesberg were used to determine whether or not heteroskedasticity existed in the data.

Due to the fact that the study used both fixed and random effects models, the Hausman Specification test was used to evaluate whether the study should use the fixed or random effects model.

4. RESULTS AND DISCUSSION

This part begins with a discussion of the variables, which is done through the use of descriptive statistics. Following the introduction, the results of model estimations and the inferences taken from the hypotheses investigated are presented in the following section. To determine the relationship between the regressors and the dependent variables, Pearson correlation coefficients, and multiple regression approaches were used.

Descriptive Statistics

Description of descriptive statistics for the variables utilized in the study is shown in Table 1, which includes the minimum and maximum values, the mean and standard deviation, and the minimum and maximum standard deviation

Table 1
Descriptive Statistics

Variables	Observations	Mean	Std. Dev.	Minimum	Maximum
FRQ	120	-.0003249	.1522835	-.441083	.709056
BC	120	.6150704	.1596204	0	.785714
FG	120	-3.842309	.3032605	-.8715532	1.396332

Source: Researcher's Computation Using Stata 12, 2021

Table1 presents the descriptive information for the consumer products companies that were chosen for inclusion. The results show that the average value of financial reporting quality is -.0003249, which is a negative value. According to the findings, the financial reporting quality of selected consumer goods firms in Nigeria is generally poor, and the large standard deviation of .1522835 suggests that the poor financial reporting quality is widely distributed among the consumer goods



companies in Nigeria. This suggests that, on average, the studied consumer goods companies experienced aberrant accrual during the study period, as indicated by the log value of $-.0003249$. On the other hand, the minimum and maximum values of $-.441083$ and $.709056$, respectively, indicate that the sampled consumer goods companies have a maximum value of $.709056$ while the minimum value of $-.441083$ indicates that the sampled consumer goods companies have a minimum financial reporting quality. Taking the complete statistic into consideration, it can be concluded that consumer goods companies in Nigeria have an average negative log $-.0003249$ of anomalous accrual, i.e. inflation of firm's valuation, which will undoubtedly harm financial reporting quality.

The composition of the board of directors, as shown in Table 1, has an average value of $.6150704$ which indicates that the selected consumer goods companies in Nigeria have adequate independent directors on the board during the period of study. At the same time, it is clear that the majority of the selected consumer goods companies have complied with the government policy released by the Financial reporting Council of Nigeria that, there must be at least two independent directors on the board. a. In this consumer goods industry, the minimum and maximum independent board of director's value are reported to be 0 percent and $.785714$ percent, respectively, where 0 percent indicates that there are some companies with no independent directors on their boards of directors and $.785714$ indicates that at least one company has a $.785714$ independent board of directors in its organization. The standard deviation of $.1596204$ demonstrates that the average spread of independent directors of selected consumer goods firms in Nigeria is 15 percent more than the average spread of independent directors of all consumer goods companies in Nigeria.

Firm growth, the final explanatory variable, reveals that the mean value of selected consumer goods firms is -3.842309 , indicating that the firm growth rate of selected consumer goods companies in Nigeria has been reduced during the period of the study, according to the results. This could be responsible for the low financial reporting quality of selected consumer goods companies during the study period, as indicated by a standard deviation of $.3032605$. The minimum and maximum values for the variable are $-.8715532$ and 1.396332 , respectively, and their standard errors are $-.3032605$ and 1.3032605 , respectively.



Multicollinearity

A classical linear regression model assumption, multicollinearity, states that there is no multicollinearity among explanatory variables. This is one of the assumptions of the classical linear regression model. Multicollinearity is a term used to describe a situation in which there is an exact linear relationship between explanatory factors. Collinearity diagnostics are performed to formally establish the absence of multicollinearity between the independent variables, and the variance inflation factors (VIF) and tolerance values show that there is no multicollinearity in the data. Table 2 contains the tolerance and VIF values, as well as their respective ranges.

Table 2
Multicollinearity

VIF VARIABLE	VIF	1/VIF
BC	1.02	0.976160
FG	1.01	0.991482
MEAN VIF	1.04	

To quantify multicollinearity between the independent variables, two advanced measures are used: the tolerance value and the variance inflation factors (VIF). According to Gujarati (2004), if the variables have a VIF greater than 10 and tolerance values greater than 1, there is a strong indicator that multicollinearity exists. They were computed and found to be consistently less than 10 in terms of variance inflation. The tolerance values are also computed, and it is discovered that they are consistently less than one. As a result, the findings in the preceding table give strong evidence that multicollinearity does not exist in the data (Hassan; Percy & Stewart, 2006; Marcus & Tehranian, 2008 & Hassan, 2012). This demonstrates the appropriateness of fitting the study's model with the two independent variables using the two independent variables.

Correlation matrix of variables

Table 3
Correlation matrix of variables

	FRQ	Board Composition	Firm Growth
FRQ	1.0000		
Board Comp	0.0544	1.000	
Firm Growth	0.9957	0.0900	1.000

The hypothesis for “Hausman” specification test

The null hypothesis is more appropriate, and the random-effect model is more appropriate. An alternative hypothesis is that a fixed-effect model is better suitable. As a rule of thumb, when the Hausman test results in a statistically significant (less than five percent) difference between two models, the fixed-effect model is favored over the random effect model; otherwise, the random effect model is picked.

Table 4
Regression Result

Statistics variables	Beta coefficient	T- values	Significance
Bc	.04936	14.49	0.000
Fg	.50150	281.8	0.000
R ²	0.9946		
Adjusted r ²	0.9944		
F- statistics	5054.2		
Significance	0.000		

Source: Researcher’s Computation using Stata 12, 2021.

According to the regression results, board composition and firm growth have a significant impact on the financial reporting quality of Nigerian consumer goods companies.

Model selection test: random verses fixed effect model

It was decided to adopt the Panel Data model in this investigation since it was thought to be relevant for this particular study. It has been suggested by Gujarati (2004) that if T (the number of time series data) is big and N (the number of cross sectional units) is small, there is a chance of disparities in the values of estimated parameters between the random effect model and the fixed effect model.

The Hausman specification test is used to determine which of the two alternatives between fixed effects and random effects models is the best one to use. In this study, Hausman specification tests are utilized to determine which model is the most appropriate for fitting the sample data. So the application of the five percent threshold of the Hausman specification test assists the study in deciding between fixed effects and random effects models.



Board composition and FRQ of consumer goods companies in Nigeria

The regression results demonstrate that board composition is both positive and statistically significant at 0.04936 and 14.49. The regression result reveals that the presence of independent directors on the boards of consumer goods businesses in Nigeria has aided in the improvement of the financial reporting quality of consumer goods companies in Nigeria. Furthermore, it demonstrates that consumer goods businesses' compliance with corporate governance is likely to be one of the reasons why board composition is positive and has a major impact on the financial reporting quality of consumer goods companies in Nigeria. The findings contradicted the notion that board composition has no substantial impact on financial reporting quality. This means that the independent directors are free of managerial control and are capable of effectively and efficiently monitoring the affairs of the managers, which will increase the quality of information supplied to shareholders.

However, it was revealed that increasing the number of independent directors on the board has a beneficial effect on the role of deciding the quality of earnings of Nigerian consumer goods firms. The positive significant finding, however, is consistent with the findings of (Feyitimi, 2014), whereas (Park & Shin, 2004; Kao & Chen, 2004; Abdullah & Mohammed, 2004; Abdulraham & Ali, 2006; Petra, 2007 & Jaggi et al. 2007) found no relationship between earnings quality and independent directors on the board.

Firm growth and FRQ of consumer goods company in Nigeria

The regression results show that the relationship between firm growth and financial reporting quality of Nigerian consumer goods companies is favourably significant at the 1% level of significance (p-value 0.0000). This demonstrates that firm growth has a beneficial impact on the financial reporting quality of consumer products companies in Nigeria. Companies with growth potential, steady sales, market penetration, and new product innovation may not need to engage in earnings management, whereas those with poor sales may need to fine-tune their financial reporting. Our findings are congruent with those of Oyelere (2000), Pincus and Rajgopal (2002), Shehu and Farouk (2014). However, the findings contradict those of (Ibrahim, 2014; Olowokure *et al.*, 2016).



5. CONCLUSIONS AND RECOMMENDATION

The purpose of this study is to investigate the influence of company characteristics and financial reporting quality on the performance of publicly-traded consumer products companies in Nigeria. Board composition shows a positive and statistically significant link with financial reporting quality, which is consistent with previous findings. This suggests that board composition would influence the financial reporting quality of consumer products companies in Nigeria. This finding was consistent with agency theory and other earlier research that found a considerable impact on the financial reporting quality. Firm growth has a positive and statistically significant link with financial reporting quality, which contradicts previous expectations, and the result shows that firm expansion would influence the financial reporting quality of consumer products companies in Nigeria.

Although independent or nonexecutive directors do not play a direct role in company management, an increasing proportion of independent or nonexecutive directors on the board may provide a more effective monitoring tool to the board and hence provide greater financial reporting quality. Furthermore, the board's independent or non-executive directors should be morally sound and experienced individuals, preferably with a track record of tangible achievement, knowledge of board matters, and commitment to the task of corporate governance and to preventing managers from engaging in opportunistic behavior. Consumer goods businesses in Nigeria that have growth potential, steady sales, market penetration, and new product innovation are encouraged not to participate in earnings management because company growth can be utilized to predict future stock values. Furthermore, management should develop their managerial skills in terms of effective decision-making, supervision, and monitoring of the internal control system to reduce waste and increase productivity.

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