
Effect Of Board Gender Diversity on Earnings Quality of Listed Consumer Goods Firms in Nigeria

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Abstract

The quality of earnings for listed consumer goods firms in Nigeria is examined in this study in relation to board gender diversity. In order to accomplish the research objective information was obtained from the annual reports and accounts of fifteen (15) sampled consumer goods firms listed on the Nigeria Group Exchange between 2010 and 2022. Using multivariate regression analysis technique results showed that board gender diversity has a negative and insignificant effect on earnings quality of listed consumer goods firms in Nigeria. The study recommends the need for comprehensive evaluation of corporate governance systems of firms. Though there is yet no consensus on what number constitute an optimal board size, the study recommends that firms with more diverse ownership interest and shareholders needs to structure its board such that all key interest are represented.

Keywords: Board gender diversity, Consumer goods firms, Earnings quality, Earning persistence

1. Introduction

Earnings quality which is referred to as the level at which the choice of managers influences reported earnings (Oyebamiji, 2020), has been an issue of concern in the corporate business world, especially among consumer goods firms. This is as a result of the divergence between owners of a business and those charged with the responsibility of controlling its affairs and because managers who are responsible for the preparation and presentation of the entity's financial statements, use informations that are not yet made public for their own advantage. The management has several reasons to inflate earnings. They may wish to entice new investors or retain existing shareholders; they may also wish to earn a higher management fee or ensure that the board retains them, among other things. If these interests are prioritized over the business's strategic objectives, it is obvious that the firm's true earnings will not be reported and that any earnings reported will be of lower quality. However, earnings being one of the most important pieces of information in the financial statements that is needed in the capital market for assessing the performance of firms needs to be of high quality.

At the center of corporate governance is the board of directors. These boards of directors are individuals who are nominated by the firm's shareholders in order to oversee the corporate governance system of the firm and the activities of the management. It is assumed that board performance of its monitoring duties is influenced by the effectiveness of the board, which in turn is influenced by various board attributes such as board composition, size of board, board independence, board meeting, board diversity, information asymmetries and board culture.

This study focused on board diversity in particular board gender diversity. Gender representation on the corporate boards of directors refers to the proportion of men and women who occupy board member positions. Board gender diversity is one of the most significant issues faced by modern corporations (Clarkson, Li, Richardson, & Tsang, 2019). In contrast to males, female members on the board are found to be more independent, diligent, and responsible (Li & Li, 2020). Their presence may increase the discussion and exchange of ideas in taking decision in the firm. According to Gao et al. (2017) female member dislike fraud more than their male counterparts and do not like to be associated with firms with fraudulent practices due to their empathetic and cooperative behavior. Thus, the board's actions or inactions can have an effect on the quality of firm's earnings.

It has been observed that there are more studies at the international level (Uemura, 2020; Yodbutr, 2020; Koevoets, 2017; Alves., 2014; Panagiotis and Asteriou 2010; Hashim and Devi, 2008) than the local (Nigeria) level that focused on the effect of board attributes and earnings quality of firms. At the local (Nigeria) level, there are very few studies (Adegbie et al., 2019; Chukwu et al, 2020; Ogaluzor and Chukwu, 2022) on board attributes and earnings quality. From the foregoing, there is scarcity of research on the relationship between board attribute and earnings quality at the local (Nigeria) level. Even the few studies that existed at the local (Nigeria) level used other board diversity proxies apart from board gender diversity which is considered as an important attribute of an effective board and one of the emerging topics in accounting literature, which scholars have invested considerable time on it but still contains a significant number of unexplored areas. Thus, there is the need for research on the relationship between board gender diversity and earnings quality at the local (Nigeria) level.

Also, most of the studies (Uemura, 2020; Yodbutr 2020; Adegbie et al. 2019; Koevoets 2017; Alves 2014; Panagiotis and Asteriou 2010, Hashim and Devi 2008) on board gender diversity and earnings quality focused on others sectors neglecting the listed consumer goods firms. The consumer goods sub-sector is the sector that produces and retails goods meant for direct consumer use, for personal pleasure and utility. The sector involves firms that produce food items, packaged goods, apparel, beverages, cars, and electronics. Because this industry can generate skilled jobs and is a potential engine of modernization, the study chose the consumer goods sub-sector as its area of study. The rise of the consumer goods sub-sector has long been seen as essential to economic development, even if it is not the largest subsector in Nigeria or even in African nations in terms of producing jobs or goods. Additionally, the consumer goods sub-sector is expanding and making a major contribution to the growth and development of the Nigerian economy. Therefore conducting research on the consumer goods firms is important.

Earnings manipulation makes financial reporting to be of less quality and reduces the level of confidence of investors in their decision making process. Gender diversity which is considered as an important attribute of an effective board and one of the emerging topics in accounting literature contains a significant number of unexplored areas, necessitating this work. Also, relationship between board gender diversity and earnings quality is still not clear because of the inconsistency in the results obtained by previous researchers. From the previous studies there is no conclusive answer as to whether or not board gender diversity affects earnings quality. As such, more research is required to properly understand the relationship between board gender diversity and earnings quality. Therefore, the primary goal of this research is to assess the effect of board gender diversity on earnings quality of listed consumer goods firms in Nigeria. The specific objective of the study is to: assess the effect of board gender diversity on earning persistence of listed consumer goods firms in Nigeria; and to achieve the study's objective, the following assumption is stated in null form to guide the study: H_{01} : Board gender diversity does not significantly affect earning persistence of listed consumer goods firms in Nigerian.

1. Literature Review

1.1 Empirical Review

The literature on board gender diversity and earnings quality shows mixed results. Some scholars documented positive and significant association between board gender diversity and earnings quality while others reported otherwise.

Ogaluzor and Chukwu (2022) carry out an investigation on the relationship between gender diversity and earnings quality of quoted insurance companies in Nigeria. Purposive sampling technique was used to select 21 firms out of twenty six insurance firms listed on the Nigerian Stock Exchange (NSE) as at 31st December 2017. The findings of this study showed a significant relationship between gender diversity of the board and the accrual quality of listed insurance companies in Nigeria. It was also found that gender diversity of the board has a significant relationship with earning persistence of listed insurance companies in Nigeria. The study concluded that gender diversity significantly affects firm reported earnings quality.

Furthermore, Makhoul, Al-Sufy and Almubaideen (2018) employing a sample of 68 industrial firms quoted on Amman Stock Exchange (ASE) from 2013-2016 found the existence of a positive and significant relationship between gender diversity and accounting earnings quality. In a similar vein, Boussaid and Sougné (2015) providing empirical evidence for French listed firms for the period 2009-2012 also revealed the presence of a positive and significant relationship between board gender diversity and earnings quality. Also, Using a sample of 13,206 firm years listed in the USA for a period from 1996-2008, Ho et al. (2015) focused on the CEO gender found that there is a positive and strong relationship between CEO gender and accounting quality. Similarly, García et al. (2017 check 2018 or 2017) adopting a cross-country approach covering the banks in the euro-zone with a total sample of 159 banks and covering the period 2004-2010. The findings of the study indicates that the presence of females on the board have a positive impact on earnings quality.

On the contrary, Sun et al. (2021) found no significant association between the numbers of female directors on audit committees and the level of earnings management, when they investigated whether the presence of female directors on independent audit committees affected the ability of the committees to control earnings management, using 525 firm-year observations from 2003 to 2005. In the same vein, Wang (2015) examined the relationship between board gender diversity and accounting conservatism used as an indicator of earnings quality. The study made use of 25 firms listed in the Finnish exchange covering the period 2009-2014 and the results showed that board gender diversity has no significant effect on conditional accounting conservatism. However, Mnif and Cherif (2020) in their study's result showed that there was reduction in earnings management in the presence of women director in the board. Also, Obigbemi et al. (2016) examined the impact of board composition on earnings management in Nigerian firms. Results indicated a negative significant relationship between board genders and earnings management, as measured by the volume of discretionary accruals adopting modified Jones Model. Similarly, Hili and Affess (2012) empirically examined the impact of gender diversity on earnings quality and earnings management using a sample of 70 French firms. They found that gender diversity had no significant impact on earnings management, whether positive or negative, and that the enhancement of earnings persistence could not be attributed to gender diversity. Furthermore, Nyatichi (2016) conducted a study on the effect of board diversity on earnings quality on Nairobi Stock Exchange enterprises ROA, the empirical studies so far remain inconclusive.

In another view, Ghazaleh and Garkaz (2015) investigated the impact of having women on the boards of companies listed on the Tehran Stock Exchange on earnings management using the discretionary accruals index. The outcomes of the study found that having female directors on the board is highly linked to lower earnings management. In the same vein, Srinidhi and

Tsui (2011) investigated the relationship between female representation on corporate boards and the earnings quality of listed businesses in the United States. Results showed that having female directors on audit and corporate governance committees lead to more transparent reporting. They also concluded that there was a link between the participation of women on corporate boards and the higher quality of earnings reported.

1.2 Theoretical Review

The theories underpinning this research are the resource based view theory and agency theory.

1.2.1 The Resource-Based View (RBV)

The resource view theory is a theory that sees corporate governance as a resource for the firm that can account for organisational outcomes such as the earning quality. The issue of what drives firms actions and in this context pursuing earnings quality have been central in strategy research for decades and encompasses most other questions that have been raised in the field, as for instance, why firms differ, how they behave, how they choose strategies and how they are managed. In the 1990s, with the rise of the resource-based approach, strategy researchers' focus regarding the sources of sustainable competitive advantage shifted from industry to firm specific effects. Initiated in the mid-1980s by Wernerfelt (1984), Rumelt (1984) and Barney (1986), the resource-based view (RBV) has since become one of the dominant contemporary approaches to the analysis of why firms do what they do. In the light of the theory, corporate governance is an internal resource that has the potential for providing competitive advantage for the firm. The theory thus properly, places corporate governance as a vital tool unique to the firm which determines how they behave, how they choose strategies and how they are managed. In the light of earnings quality, the theory sees corporate governance as a resource for the firm that can account for organisational outcomes such as the earning quality

1.2.2 Agency Theory

One of the theories that have been used widely in the field of accounting, especially corporate governance, is the agency theory. This research is based on agency theory, because the theory seeks to define a relationship in which one party (the principal) delegated work to another (the agent). The theory evolved from the concept of separation of ownership from management or separation of ownership and board of directors in modern firms (Berle & Means, 1932). As a result of the separation between ownership and management or control, agency theory has been used to explain the relationships within organizations. The theory deals with the contractual relationship between agent and principal under which shareholders delegate responsibilities to the board of directors to run the business. The agency theory is based on the notion that board of directors will not always act in the best interest of the shareholders.

Additionally, it is concerned with resolving conflicts of interest and risk sharing when attitudes toward risk diverge (Eisenhardt, K., & Bourgeois, L. 1988). Economic variants of agency theory place a premium on the principal-agent relationship's costs and benefits. While a beneficial agency cost adds value to a shareholder, an unfavorable agency cost occurs when management actions contradict shareholder interests. This is the case when managers prioritize their own interests over those of the business's owners (e.g., manipulating short-term earnings at the expense of long term performance in order to receive a bonus).

The agency theory is derived from the pure economic approach which suffers from some limitations. It is based on the desire for income and avoiding loss. Consequently, it focuses on profit maximization as a main goal of managers and ignores other goals. Also, this approach concentrates only on two stakeholder groups: board of directors and shareholders, and pays no attention to other interested parties in society, such as government, employees, and consumer groups, among others. Moreover, the question of who is the principal is the source of difference between agency and stakeholder theories. While the principal in agency theory is the

shareholders, the stakeholder theory extends the concept of principal to include other interested parties beside shareholders. Solomon (2007) argues that theoretical frameworks that suggest companies should be accountable only to their shareholders are not necessarily in consistent with theoretical frameworks that champion stakeholder accountability.

However, the main problem of agency theory is agency conflict. Agency conflict comes from the conflicting interests between the principals (the owners) and the agents (board of directors). The principals are interested in maximizing their profit, which should also be the interest of the board of directors (Okolie, 2014 and Okolie et al., 2013). When it comes to information of earnings, the conflict of agency could lead to dysfunctional behaviour by board of directors to the extent of management. The separate interests of the principals (owners) and the agents (board of directors) may become a source of dispute, as certain agents may not behave perfectly in the best interests of the principal. Incompatible desires can lead to inefficiencies and financial losses on the part of each stakeholder. This leads to the principal-agent problem.

The development of agency theory resulted in the emergence of two distinct streams of literature addressing the same issue: positive agency theory and principal-agent theory (Jensen 1986). According to Jensen (1986) and Eisenhardt k. (1989), positivist research has largely concentrated on the relationship between the owner and manager in public companies. The principal-agent literature has been primarily concerned with modeling the general relationship between the principal and the agent (Jensen, 1986).

3. Methodology

Fifteen (15) of the twenty-one consumer goods firms listed on the Nigerian Group Exchange as of December 31, 2022, are used as samples for this study. The study's data were sourced over a thirteen-year period (2010–2022) from the annual reports and accounts of the consumer goods firms listed on the NGX and the NGX Facts-book. In order to analyze the data generated, the study employed three techniques. They are descriptive statistics, correlation, and multivariate regression. The analysis was done using STATA Version 15.

3.1 The Dependent Variable

For this study, earnings quality is the dependent variable. Earnings persistence was utilized as proxy for earning quality to assess the impact of board gender diversity on earnings quality. The study measured earnings persistence as slope coefficient by regressing present earnings on preceding earnings, as used by Dang et al. (2020), Zuhier et al. (2017), Li et al. (2014), Richardson (2005), Miller and Rock (1985) and Kormendi and Lipe (1987).

3.2 Independent Variable

Board gender diversity is the independent variable of the study. The study measured board gender diversity as the number of women on the board to total number of the board of directors. This is consistent with Triana et al. (2019) and Abobakr and Elgiziry (2016).

3.3 Control Variable

Profitability and firm size are the control variables that were employed in this study to improve the model's fitness and prevent bias from omitted variables. Profitability is a performance measure used as determinant of reported earnings quality. As utilize by Ahmed (2012) and Ame et al. (2020), profitability is calculated in this study by dividing profit before tax by total assets. Firm size is measured as the natural log of total assets as used by Ame et al. (2020), Oyebamiji (2020) and Waweru and Riro (2013).

3.3.1 Model Specification

This model examines the impact of board gender diversity on earning quality (earnings persistence).

$$EP_{it} = \beta_0 + \beta_1 BGD_{it} + \beta_2 ROA_{it} + \beta_3 FS_{it} + \varepsilon \dots\dots\dots$$

Where:

- EP_{it} = Earnings persistence of firm i for time t;
- BGD_{it} = Board gender diversity of firm i for time t;
- ROA_{it} = Return on assets of firm i for time t;
- FS_{it} = Firm size of firm i for time t;
- β₀ = Intercept or constant;
- β₁ – β₃ = Coefficient of explanatory variables; and
- ε = Error term of firm i for time t.

To improve the statistical inference from the data analysis, post estimation tests were conducted after the multivariate regression analysis. The study used winsorization to see the extent and the nature of dispersion of data to which they suggest whether the data are normally distributed or not. Also, multicollinearity test was conducted to assess whether or not there is presence of multicollinearity among the explanatory variables. The variance inflation factor (VIF) was used to identify multicollinearity; the VIF should be a range of 1 to 10. Therefore, VIF greater than 10 indicates presence of multicollinearity, the inverse VIF should be greater than 0.1. To determine if the variability of the error term is constant, a heteroscedasticity test was run. However, the existence of heteroscedasticity suggests that the error term's variance is not constant, which will have an impact on the study's conclusions about the beta coefficient, coefficient of determination (R²), t-statistic, and f-statistic. The presence of homoscedasticity, which assumes that the error term's variance is constant for all values of the explanatory variables, is implied by the absence of heteroscedasticity. To detect this, the Breusch-Pagan test was utilized, if the p-value is more than 5%, the null hypothesis is rejected that the variance of residual is homogenous (Stock & Watson, 2007). The study utilized panel data. Pooled ordinary least square regression was conducted. In addition, Fixed Effect and Random Effect regressions were also conducted. To choose the most efficient among the regression results, Hausman specification test was carried out, if the probability of chi-square is less than 10%, the Fixed Effect result is selected and interpreted while Random Effect result is selected if probability of chi-square is greater than 10%.

4. Results and Discussions

This section presents the results and analysis of the data collected from the annual reports and accounts of the listed consumer goods firms in Nigeria over the period of the study (2010 - 2022). In order to explore the descriptive contents of the data, the section first presents the results of a descriptive analysis. Next, it shows the correlation matrix, which illustrates the nature of the relationship between the dependent and explanatory variables. Finally, it presents the results of a multivariate regression, which includes regression results to estimate the impact of an independent variable on the dependent variable as well as diagnostic tests for both the dependent and explanatory variables.

Table 1 Descriptive Statistics of the Variables of the Study

Variables	Obs.	Mean	Std. Dev.	Min	Max
EP	195	1.6599	1.6632	0.2184	6.1046
BGD	195	0.1638	0.1239	0	0.5700
ROA	195	0.8956	0.1164	-0.3063	0.3923
FS	195	10.6516	0.6529	9.0083	11.6911

Source: Stata Output 15.0 Based on data generated from annual report of sample firms (2010-2022)

According to Table 1, the listed consumer goods firms' earnings persistent (EP) mean is 1.6599, with a standard deviation of 1.6632 and minimum and maximum values of 0.2184 and 6.1046, respectively. There is no significant variation among the earnings persistence of the listed consumer goods firms in Nigeria, as indicated by the standard deviation of 1.6632. This

suggests that, in terms of earnings quality, Nigeria's listed consumer goods firms are within the same range.

Furthermore, board gender diversity (BGD) has 16% on average with a spread around mean of about 12%. This implies that there is no significant variation in the board gender diversity of the listed consumer goods firms in Nigeria. At a particular point, some listed consumer goods firms in Nigeria have no female director in their board members at all, as indicated by the minimum value of 0, whereas some listed consumer goods firms in Nigeria have up to 50% female directors at some point in time as indicated by maximum value of 0.5.

With respect to control factors, listed consumer products companies exhibit an average return on assets (ROA) of 9%, with minimum and maximum values of -30% and 39% respectively. The standard deviation of 12%, which is higher than the mean value, indicates a high variation in the profitability of the listed consumer goods firms. The negative minimum value denotes a period of loss for some listed consumer goods firms. Furthermore, the natural logarithm of total assets, which is used to calculate firm size (FS), has a mean value of 10.6516 and a minimum and maximum value of 9.0083 and 11.6910, respectively. The 0.6529 standard deviation indicates a high degree of asset dispersion among Nigeria's listed consumer goods firms. The correlation matrix results are shown in Table 2 below.

Table 2 Correlation Matrix of the Dependent and Explanatory Variables

Variables	PERS	BGD	ROA	FS	VIF	I/VIF
PERS	1.0000					
BGD	0.0598	1.0000			1.19	0.84
ROA	0.5143	0.1143	1.0000		1.05	0.95
FS	0.4229	0.3358	0.2080	1.0000	1.37	0.72

Source: Stata Output 15.0 based on data generated from annual report of sample firms (2010-2022)

The correlation matrix between the study's variables is presented in Table 2. The correlation coefficient ranges in value from -1 to 1. The correlation coefficient's sign reflects the direction of the relationship whether it is positive or negative. Larger values of the correlation coefficient indicate stronger relationships. Since there is an absolute positive linear relationship between every variable and itself, the correlation coefficients on the main diagonal are 1.0000. The relationship between board gender diversity (BGD) and earning persistence (EP) is positive but insignificant as shown by the correlation coefficient of 0.0598. Also, from the result of the correlation matrix as shown in Table 2, return on assets (ROA) exhibit a positive relationship with earning persistence (EP). This is indicated by the correlation coefficient of 0.5143. Similarly, the relationship between firm size (FS) and earning persistence (EP) during the study period is positive as shown by the correlation coefficient of 0.4229.

A Variance Inflation Factor (VIF) Tolerance test was performed for each of the explanatory variables to ascertain whether multi-collinearity or a collinearity problem was present. Because the VIF test results range from a minimum of 1.05 to a maximum of 1.37, which is consistent with the study of (Barde, 2009; Samaila, 2014), this indicates the absence of collinearity. Table 3 below shows the regression result impact of board gender diversity on earnings quality (earnings persistence).

Table 3 Regression of Results

Earnings Persistence Fixed Effect (FE)				
	Coef.	Std. Err.	Z	P> z
BGD	-1.5471	0.8495	-1.82	0.069
ROA	6.4423	0.9455	6.81	0.000
FSIZE	0.9370	0.1321	7.09	0.000
_CONS.	-8.6441	1.3325	-6.49	0.000
R-Squared:	0.3806			
Number of Obs.	195			
Wald chi²(4)	97.74			
Prob> chi²	0.0000			
Hetest	0.0000			
Hausman Test	Prob>chi2 = 0.0000			

Source: Stata Output 15.0 based on data generated from annual report of sample firms (2010-2022).

$$EP_{it} = -8.6441 - 1.5471BGD_{it} + 6.4423ROA_{it} + 0.9370FS_{it} + \varepsilon$$

From Table 3, the cumulative R² of 0.3806 for variables, which is the multiple coefficient of determination, indicated how much of the dependent variable's overall variation could be explained by the independent variable jointly. Hence, it signified that 38% of the total variation in earnings persistence of listed consumer goods firms in Nigeria is accounted for by board gender diversity, profitability, and firm size variables used in the study. This implies that 62% of the change in earnings persistence of the listed consumer goods firms in Nigeria are explained by other variables not captured in the model of the study.

The Wald chi² value of 97.74 indicates that the model is fit; this value is statistically significant at 1%. It suggests that any modification to the board gender diversity of Nigeria's listed consumer goods firms will have a direct impact on their earnings persistence. The P-value for the Wald chi² test which is statistically significant for the model at a level of 0.0000 indicates that there is 99.9 percent likelihood that the relationship between the variables of the study was not by mere chance. As a result, the regression's findings can be relied upon. Additionally, it suggests that the study's dependent variable can be accurately predicted by the independent variables.

According to Table 3, the board gender diversity model's coefficient value is -1.5471, and its P-value is 0.069. This indicates that, at the 5% level of significance, board gender diversity has a negative and insignificant effect on the listed consumer goods firms' earnings persistence. This implies that an increase or decrease in the number of women directors on the board of the firms does not lead to any change in the earning persistency of the listed consumer goods firms in Nigeria. This finding is consistent with the findings of D. Pratomo, T. U. Lestari & R. F. Pebriyanti, (2022) and Wang (2015). It is however inconsistent with findings of Ogaluzor and Chukwu (2022) and Triana et al. (2019), who found that gender diversity of the board has a significant relationship with earning quality.

Also, Table 3 shows that profitability has significant positive impact on earnings persistence of listed consumer goods firms having a coefficient value of 6.4423 and P-value of 0.000. This finding is in line with the findings of Lassoued (2022), Warrad (2017), and Ibrahim (2017) but contrasts with the findings of Salah (2018). In addition, at 1% level of significance with a coefficient value of 0.9370 and a P-value of 0.000, firm size has a significant positive impact on the earnings persistence of listed consumer goods firms in Nigeria. This result conflicts with those of Ibrahim (2017) and Hasanuddin et al. (2021), but it is consistent with Fitriana and Islami's (2018) conclusion that firm size influences earnings quality.

4.2 Post Estimation and Robustness Tests

Numerous robustness tests were conducted to enhance the validity and reliability of the research. A multicollinearity test was performed to see whether correlations existed between the explanatory variables, which might affect the outcome of the study's regression analysis. According to the test's results, the tolerance value for each explanatory variable (independent and control variables) was above 0.1 and the variance inflation factor (VIF) was consistently less than 10. This implies that the proxy for the independent variable does not exhibit multicollinearity. This further demonstrates how well the study model fits all of the explanatory variables that were included.

Heteroscedasticity test was also conducted for the regression to determine whether or not the variability of the error term is constant. Result obtained from the heteroscedasticity test showed the presence of heteroscedasticity as the probability of the chi-square is less than 1%. To correct this panel corrected standard error regression (PCSEs) was conducted. To determine whether or not the error term is normally distributed for the model of the study, Shapiro Wilk and Skeweness test were conducted. The result of these tests showed that the data was normally distributed after winsorization.

5. Conclusion and Recommendations

The study concluded that board gender diversity has a negative and insignificant impact on the earnings persistence of listed consumer goods firms in Nigeria. The finding suggests that on average, higher number of women directors on the board is associated with lower earnings persistence, although this association is not statistically significant. This might be contrary to what some analysts might intuitively expect, as board gender diversity is often seen as connected with higher earnings persistence.

Based on the conclusion of the study, the study recommends the need for comprehensive evaluation of corporate governance systems of firms. Though there is yet no consensus on what number constitute an optimal board size, the study recommends that firms with more diverse ownership interest and shareholders needs to structure its board such that all key interest are represented.

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