Vicissitudes in Financial Reporting in Nigeria: What Role Does Corporate Governance and Ethics Play?

Adeyemi Adekunle Akeem[1], Mieseigha Ebipanipre Gabriel[2]

Abstract: This paper examined if corporate governance and ethics play a fundamental role in the vagaries in financial reporting in Nigeria. Expo-facto design and secondary data from annual reports and accounts and Nigerian Stock Exchange Factbook of selected quoted manufacturing firms during 2002-2017 were obtained. Governance measures of board gender diversity (BGD) and board chairman shares ownership (BCSO), as well as ethics was measured by dummy variables. Fixed and random effects regression models were employed to validate the nexus between the dependent (financial reporting) and independent (corporate governance and ethics) variables. Based on the analysis, of data, it was revealed that corporate governance and ethics have a major role in the vicissitudes in financial reporting, especially in the aspect of performance measures of corporate entities. Also, it was found that corporate governance measures of board gender diversity and board chairman shares ownership and ethics jointly and significantly influence financial reporting among quoted manufacturing companies in Nigeria. Hence, it was recommended among others that regulatory bodies of quoted companies in Nigeria should established more governance codes that help in including more women on the board as well as emphasizing board chairman shares ownership so as to promote financial reporting of quoted companies in Nigeria. In addition, SEC should ensure that codes of governance provisions be strictly adhered to by quoted companies as it will promote transparency and accountability in financial reporting.

Keywords: Financial Reporting; Corporate Governance; Ethics; Fixed and Random Effects

JEL Classification: B26

1. Introduction

In recent times, there are quite a number of vicissitudes that have rocked financial reporting in both developed and developing nations. Fundamental among these vicissitudes as opined by Azim (2012), Derry (2012), Gardberg, Zyglidopoulos, Symeou and Schepers (2017), encompassed harmonization of accounting standards, initiation of new corporate governance codes, and ethical issues. These vicissitudes no doubt, have transformed the manner in which financial reports are prepared and

[1]Nnamdi Azikiwe University, Nigeria, Address: Awka, Anambra State, Nigeria, E-mail: kunleadeyemi01@gmail.com.
[2] Nnamdi Azikiwe University, Nigeria, Address: Awka, Anambra State, Nigeria, Corresponding author: ebigabriel2007@yahoo.com.

presented to stakeholders. Regardless of the role played by these vicissitudes *inter-alia* in financial reporting, there are questions as to whether or not if they positively or negatively affect financial reporting (Adams & Ferreira, 2009; Hadani & Coombes, 2015; Liket & Maas, 2016).

In Nigeria, there is the outcry that followed the initiation of recent governance codes, harmonization of accounting standards, given the enormous collapse of corporate entities, unresolved ethical dilemmas, if they can mitigate the hullabaloo rocking financial reporting. Consequent upon the above, this paper attempts to dissect whether corporate governance and ethics play a fundamental role in the vagaries in financial reporting. The remaining part of this paper is sectioned as follows: review of related literature, methods, results, discussion, conclusion and recommendations.

2. Review of Related Literature

Overview of Financial Reporting

Financial reporting or reports are statements usually prepared and presented to users of financial statements. Such reports consist of statements of comprehensive income, financial position, cash flows, changes in equity and notes to account. Profoundly, financial reporting is premised on certain accounting concepts/conventions which are geared towards guiding how year-to-year accounting reports are disclosed (Derry, 2012). Notwithstanding the underpinnings in the preparation of financial reports, some stakeholders perceived lack of transparency in financial reporting given the weaknesses in corporate governance and ethical dilemmas facing most entities in Nigeria, the world over.

In a bid to reinforce transparency in financial reporting, international accounting was initiated; new local and global governance codes were developed (Okolie, 2014). International accounting provides guidance on the type and nature of information that is material, which are meant to be included in the financial statements of corporate entities while governance codes dictate how corporate entities are run. This is because knowledge of the information reported in the financial statements will give users of financial reports a better understanding of the state of affairs of the entity and facilitate informed decision; hence the need to revitalize issues relating to governance and ethics in financial reporting (Uddin, 2013). These needs were peculiar to both developed and developing nations like Nigeria. More importantly is the fact that the international accounting led to the transition from local GAAP (SAS) to international GAAP (IFRS), which is being practiced among countries that have adopted and implemented it and establishment of the recent governance codes for quoted companies in Nigeria.

Corporate Governance

Corporate governance according to Cadbury (1992) is a system via which firms are guided and controlled. Corporate governance is seen as actual delineation of rights and responsibilities of each group of stakeholders. Oluyemi (2005) sees corporate governance to be of special importance in ensuring transparency in financial reporting and successful realization of firms' strategies. In the view of Uddin (2013), corporate governance is a set of processes, policies, laws and institutions affecting the way a corporation is controlled. The consequences of ineffective governance systems have perhaps, led to corporate failure. Thus, governance characteristics that promotefinancial reporting are desirable by corporate entities. The corporate governance characteristics among others include board size, board independence, board gender diversity, CEO shares ownership, board chairman shares ownership, audit size and audit committee independence.

Corporate governance also includes the nexus among the numerous stakeholders involved and the goals for which the corporation is governed. Corporate governance is believed to have one form of impact or the other on financial reporting, depending on the financial and legal structure in place, which in turn, exerts a differential influence on entities' results (Agrawal & Knoeber, 1996; Azim, 2012; Man & Wong, 2013). In Nigeria, the emphasis on the need for corporate governance sprung up with the incidence of fraudulent reporting. This was caused by poor governance, management, high gearing ratios, overtrading, creative accounting, and fraud.

No doubt, corporate failures in Nigeria and the world over, have kept corporate governance on the lens; thus making shareholders and all other stakeholders to place high demand for effective corporate governance in financial reporting.In order to meet with the soaring demands by shareholders for effective corporate governance, numerous codes of governance were initiated in Nigeria such as the Central Bank of Nigeria (CBN) reviewed code 2014, Bank and Other Financial Institution Act (BOFIA) code, Securities and Exchange Commission (SEC) reviewed code 2011, National Insurance Commission (NAICOM) code 2009, and Pension Commission (PENCOM) code 2008. Hence, the need for corporate governance is to enhance transparency and accountability in financial reporting of corporate entities.

In this paper, two governance characteristics were employed: board gender diversity and board chairman shares ownership. First, board gender diversity depicts the varied personal characteristics that make the workforce heterogeneous (De Cenzo & Robbins, 2005). Board gender diversity can be said to be those varied personal characteristics and physical differences in people who are members of the board that make the board heterogeneous, and more effective in proffering wider range of solutions. It is worthy to note that women play an important role in compliance with legal aspects and corporate performance (Kastlunger, Dressler, Kirchler, Mittone, & Voracek, 2010).

Second, board chairman shares ownershipis a major issue in corporate governance. Corporate governance literature has documented that corporate shares ownership is concentrated on the hands of controlling shareholders around the world (Claessens et al., 2002). La Porta et al. (2000) argued that the prevalence of board chairman shares ownership concentration can be attributed to weak investor protection. Concentrated ownership is a way to solve the agency problem between managers and shareholders; however, it creates another type of conflict of interests: the controlling shareholders and minority shareholders (Desai & Dharmapala, 2008). From the management entrenchment perspective, board chairman shares ownership provides incentives and opportunities for controlling shareholders to extract firm resources at the expense of outside minority shareholders (Fan & Wong, 2002).

Ethics in Accounting

Ethics has its root in Greek word “Ethos” which translates as customs, conduct or character. Ethics is concerned with the kinds of values and morals individual find desirable and appropriate. According to Northouse (2013), ethics is concerned with the virtuousness of individuals and their motives. Many people and organisations claim to be “ethical”; they often attempt to codify their ethics in order to prove their ethical character. For instance, the International Federation of Accountants (IFAC) establishes code of ethics for professional accountants to include integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The code of ethics for professional accountants according to Rodin (2005), play a major role in financial reporting and no doubt dictates how preparers of financial reports should perform their responsibility to stakeholders. Thus, ethics is considered a fundamental issue and cannot be undermined in financial reporting. Consequent upon this, we believe that ethical dilemmas may have contributed to the vicissitudes in financial reporting in Nigeria, the world over.

Theoretical Framework

The theoretical framework of this paper is anchored on the utilitarianism theory. The utilitarianism theory was propounded by Kant (1965). The theory focused on the notion of maximizing the ultimate value of good (utility) for the ultimate number of individuals. The basis of utilitarianism as noted by Masten (2012) can be attained in consequentialist settings, where the ends finally justify the means. There are two diverse forms of utilitarianism: first is the rule-utilitarianism (emphasis is on the maximization of happiness with respect to the actions to a particular rule and the second is act-utilitarianism, which evaluates the probable rule and considers the greatest happiness that results from this action (Audi, 2007).

The relevance of this theory to this study is that accountants are expected to utilize a specific rule (i.e. accounting method choice) so as to maximize the delight of shareholders such that their actions to a specific rule is in conformity with the Generally Accepted Accounting Standards (IFRS). The rule-utilitarianism lays the foundation for accountants to follow these accounting method choices in their execution of their accounting tasks (i.e. in the preparation of financial reports). The rule-utilitarianism thus implies that when these accounting method choices are duly followed, accountants will not engage themselves in actions that may be detrimental to the shareholders.

3. Methods

This study adopts the expo-facto design and data were obtained from annual reports and accounts and Nigerian Stock Exchange Factbook of selected quoted manufacturing firms during 2002-2017. A sample of forty-four (44) manufacturing firms was obtained based on availability of the required data for investigation. Thus, firms with financial statements covering 2002 to 2017 were obtained. Corporate governance measures of board gender diversity (BGD) and board chairman shares ownership (BCSO), as well as ethicswas measured by dummy variables. This study employed panel data and fixed and random regression models between the hypothesized nexus between the dependent (financial reporting) and independent (corporate governance and ethics) variables. The general form of the model is specified as:

$$Y_{it} = \beta_0 + \beta BC_{it} + \mu_{it} \qquad (eq.\ 1)$$

On the basis of equation 1 above, the model of the study is specified as follows:

$$FRP = f(BGD, BCSO, ETH) \qquad (eq.2)$$

$$FRP_{it} = \alpha_0 + \alpha_1 BGD_{it} + \alpha_2 BCSO_{it} + \alpha_3 ETH_{it} + \mu_{it} \qquad (eq.3)$$

A-priori expectation is that α_1, α_2, α_3,> 0. In other words, the study expects that the parameter (α) of the explanatory variables (BGD, BCSO and ETH) will have a significant impact on financial reporting.

Description of Variables

FRP= Financial reporting (dependent variable: measured by value of profit after tax)

BGD= Board gender diversity is measured in terms of percentages of women in the board for company *i* in time *t*,

BCSO = Board chairman shares ownership for company *i* in time *t*

ETH = Ethics of firms *i* in time *t* (dummy variables: 0 and 1) *it*: = Represent all the 40 firms in the sample and 16years time period

μ_t: = Error term

4. Results and Discussions

Table 1. Descriptive Statistics of Dependent and Independent Variables

Statistics	FRP	BGD	BCSO	ETH
Mean	5.6785	3.2145	2.6784	1.0230
Median	0.1576	1.1205	1.0345	0.2310
Maximum	272.939	5.00	3.00	1
Minimum	-176.321	0	0	0
Std. Dev.	0.5212	0.7105	0.3565	0.5565
Skewness	10.2685	2.8140	2.3481	2.7455
Kurtosis	226.29	2.4223	2.9561	23.9065
Probability	0	0	0	0
Observation	704	704	704	704

Source: Researcher Computation via STATA 13.0

Table 1 above reports the descriptive statistics of the dependent variable (financial reporting: FRP) and independent variables (corporate governance and ethics). From the table above, the mean value of FRP, BGD, BCSO and ETH were 5.6785, 3.2145, 2.6784 and 1.0230 respectively while the median values are 0.1576, 1.1205, 1.0345 and 0.230 respectively. It is obvious from the descriptive statistics that FRP recorded the maximum (272.939) and minimum (-176.321) values while BGD, BCSO and ETH recorded the lowest value (0). Also, the enormous variation of the variables was captured by the maximum and minimum values of the variables. The implication is that there are significant variations in all the variables over the period. The standard deviations of the variables were 0.5212, 0.7105, 0.3565 and 0.5565 respectively for FRP, BGD, BCSO and ETH. This suggests that the variables are not constant over time. Since all the variables are not constant over time, this enabled the researchers in examining the nexus between financial reporting, corporate governance and ethics. The skewness of the variables ranged between 10.2685 and 2.3481 and all positively skewed.

Table 2. Correlation Matrix Result

VARIABLES	FRP	BGD	BCSO	ETH
FRP	1.0000			
BGD	0.0789	1.0000		
BCSO	-0.0820	0.0895	1.0000	
ETH	0.0149	0.1890	-0.0745	1.0000

Source: Researcher Computation via STATA 13.0

The result showed that there is association between each pair of the variables of study. The correlation matrix showed that all the variables were positively correlated with FRP except BCSO which was negatively correlated to FRP. More importantly, none of the correlation coefficients exceed 0.8, suggesting that there is the absence of multicolinearity among the pairs of independent variables.

Table 3. Fitness and Joint Significance Test of the Regression Model

Model Test	Goodness of Fit	Joint Significance	
	R-squared ($R^{2)}$	**Test Statistics**	**P-value**
Fixed Effect Regression	0.8170	18.41	.0000
Random Effect Regression	0.8910	29.56	.0000

Source: Researcher Computation via STATA 13.0

The R^2 of the fixed and random effect models are 0.8170 and 0.910 respectively. This implies that the fitness of all the models is good. It suggests that the fixed and random effect regression models respectively showed that 81.7% and 89.1% changes in FRP is explained by changes in the independent (corporate governance and ethics). That is, significant part of the variation in FRP is due to changes in the independent variables. Thus, all the models have a good fit and their estimates are valid for empirical inferences. The result of the joint significance tests showed that f-statistics of fixed effect model is 18.41 with p-value .0000. Correspondingly, the Wald test statistics of the random effect model is 29.56 with p-value .0000. This is a clear indication of the acceptance of joint significance of the independent variables in the regression model. Consequently, the independent variables considered jointly have significant effect on the dependent variable. This implies that the models passed the joint significant test showing that the independent variables are not only individually significant but also relevant jointly, hence play a role in the vicissitudes in financial reporting.

5. Conclusion and Recommendations

This paper attempts to explore if corporate governance and ethics play a fundamental role in the vagaries in financial reporting. Based on the analysis of data, it was found that corporate governance and ethics have a major role in the vicissitudes in financial reporting, especially in the aspect of performance measures of corporate entities in Nigeria. More importantly, it was concluded that corporate governance measures of board gender diversity and board chairman shares ownership and ethics jointly and significantly influence financial reporting among quoted manufacturing companies in Nigeria. On the basis of the findings of the study, it was recommended among others that regulatory bodies of quoted companies in Nigeria such as Securities and Exchange Commission (SEC), should established more governance codes that help in including more women on the board as well as emphasizing board chairman shares ownership so as to promote financial reporting of quoted companies in Nigeria. In addition, SEC should ensure that codes of governance provisions be strictly adhered to by quoted companies as it will promote transparency and accountability in financial reporting.

References

Adams, R.B. & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*, 94(2), pp. 291-309.

Agrawal, A. & Knoeber, C. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis,* 31(3), pp. 377-397.

Audi, R. (2007). Can utilitarianism be distributive? Maximization and distribution as criteria in managerial decisions. *Business Ethics Quarterly,* 17(4), pp. 593-611.

Azim, M.I. (2012). Corporate governance mechanisms and their impact on company performance: A structural equation model analysis. *Australian Journal of Management,* August, pp. 1-25.

Cadbury (1992). *The Cadbury committee reports: Financial aspects of corporate governance.* London: Burgess Science Press.

Claessens, S.; Djankov, S.; Fan, J. & Lang, L. (2002). Disentangling the incentive and entrenchment effects of large shareholdings. *Journal of Finance,* 57(12), pp. 2741–2771.

Decenzo, D.A. & Robbins, S.P. (2005).Fundamentals of human resource management. *Journal of Law, Economics and Organisation,* 42(5), pp. 325-339.

Derry, C. (2012). *Advanced financial reporting: A complete guide*. England: Pearson Education Limited

Desai, M.A. & Dharmapala, D. (2008). Taxation and corporate governance: An economic approach. In: Schon, W. (Ed.). *Tax and Corporate Governance*. Springer-Verlag, Berlin, pp. 13-30.

Fan, J. & Wong, T.J. (2002).Corporate ownership structure and the informativeness of accounting earnings in East Asia. *Journal of Accounting and Economics,* 33(12), pp. 401-425.

Gardberg, N.A.; Zyglidopoulos, S.C.; Symeou, P.C. & Schepers, D.H. (2017). The impact of corporate philanthropy on reputation for corporate social performance. *Business and Society*, doi:10.1177/0007650317694856.

Hadani, M. & Coombes, S. (2015). Complementary relationships between corporate philanthropy and corporate political activity: An exploratory study of political marketplace contingencies. *Business & Society*, 54(6), pp. 859-881.

Kastlunger, B.; Dressler, S.; Kirchler, E.; Mittone, L. & Voracek, M. (2010). Sex differences in tax compliance: Differentiating between demographic sex, gender-role orientation, and prenatal masculinization. *Journal of Economic Psychology,* 31(4), pp. 122-139.

La Porta, R.; Lopez-de-Silanes, F.; Shleifer, A. & Vishny, R. (2000). Investor protection and corporate governance. *Journal of Financial Economics,* 58(5), pp. 3-27.

Liket, K. & Maas, K. (2016). Strategic philanthropy: Corporate measurement of philanthropic impacts as a requirement for a "happy marriage" of business and society. *Business & Society*, 55(6), pp. 889-921.

Man, C. & Wong, B. (2013). Corporate governance and earnings management: A survey of literature. *The Journal of Applied Business Research*, 29(2), pp. 391-418.

Masten, K.Y. (2012). *Organizational ethics in accounting: A comparison of utilitarianism and Christian deontological principles*. A thesis submitted in partial fulfillment of the requirements for graduation in Honors Program, Liberty University, Spring, pp. 1-20.

Northouse, P.G. (2015). *Leadership: Theory and Practice*. 7th Ed. London. Sage Publications Ltd.

Okolie, J.U. (2014). Corporate governance and audit committee in Nigeria. *Journal of Policy and Development Studies*, 9(1), pp. 226-233.

Oluyemi, S.A. (2005). *Banking sector reforms and the imperatives of good corporate governance in the Nigerian banking system*. Retrieved from www.ndic-ng.com/ pdf/cgovbk, pp. 1– 33. Retrieved 19/9/2018.

Rodin, D. (2005). *What's wrong with business ethics*. Oxford: UNESCO, Blackwell Publishing.

Uddin, T. (2013).Corporate governance and firm performance. *Journal of Finance and Accounting*, 7(3), pp. 88-112.