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Financial Expertise and Religious Diversity of Corporate Boards and Earnings Quality of Listed Firms in Nigeria

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Abstract:
This research work evaluated the influence of corporate boards' diversity on earnings quality of listed firms in Nigeria paying exceptional attention to the influence of financial expertise diversity and religious diversity through the Blau's diversity index; using the Holistic Earnings Management Model (HEMM) with 74 firms sampled through the judgmental sampling techniques for 11 years (2011-2021), the findings of the Robust regression and the OLS regression analysis, revealed that corporate board's financial expertise diversity and religious diversity exact significant influence on the quality of reported earnings in Nigeria listed firms and consequently it recommended that the Nomination/Governance subcommittee of the board should aggregate seasoned and proven religious practitioners in the corporate board as such would deter earnings management coupled with the Regulatory Authorities encouraging companies to ensure adequate diversity of the board especially in the aspect of financial expertise of board members, as a mix of both academic and professional qualifications in accounting, management, finance and risk/insurance for better earnings quality that would attract investors.

Keywords: Religious practitioners, Blau's diversity index, holistic earnings management model, corporate board diversity, financial expertise diversity, religious diversity

1. Introduction

Boards that are reflective of a wider range of viewpoints, allowing for an enriched dialogue and better decision-making process, are a crucial part of corporate governance, and well-diversified boards are essential for the success of a company. In Nigerian public companies, Board Diversity has been recommended by the Securities and Exchange Commission (SEC). Board Diversity was recommended to include a variety of skills, experience, qualifications, ethnicity, etc., as it tends to bring balance to the board. However, no specific guidelines have been implemented yet and it is merely recommended (Shawtari, Mohammed, Abdul Rashid & Ayedh, 2017; Adegboyegun & Adekoyi, 2022; Efenyumi, Nwoye & Okoye, 2022; Ogieh & Jeroh, 2022).

It was documented that the board's composition is one of the dynamic machinery that guarantees the board's effectiveness. The essential tactical role of the BOD is to ensure appropriate financial reporting and delivery of reliable accounting information to the organizational stakeholders for which earnings quality cannot be derelicted. (Jeroh & Efenyumi, 2022) A diverse board in terms of nationality, ethnicity, expertise and experience, religion and gender is said to work on hierarchical worth and performance is improved with the input of novel insight and upgraded imagery, and results in success in critical thinking. (Owolabi, Bamisaye, Efuntade & Efuntade, 2021, Efenyumi & Okoye, 2022)

No doubt, works of literature on board diversity ranging from ethnicity, nationality, age, qualification, religion and gender thrive. This study looks at the co-dependence of board diversity and earnings management on a company's earnings quality, as most of these studies have equally failed to holistically examine the impact of key variables like financial expertise and religious diversity of the board of directors in relation to earning's quality through a combination of real and accrual earnings management model. More so, we intend to expand the scope of corporate governance research to cover all the non-financial firms in Nigeria in a bid to resolve the conflicting findings, which may be due to the peculiarity of the sectorial divide and few sample sizes of previous Nigerian studies that focused mainly on board diversity ethnicity, educational qualification, nationality, gender and firm performance with very few or none exploring the link between financial expertise (educational & professional qualification), religious and earnings quality.

Objectively, this study is set to test the effect of board diversity on the earnings quality of listed non-financial firms in Nigeria by focusing on two key components of board diversity attributes (financial expertise and religiosity) and the holistic earnings management model with the scope traversing from 2011 to 2021. The study will not only provide empirical substantiation but also assist corporate governance regulators and the firm's managerial team with policies aimed at better governance.

2. Literature Review and Hypotheses Development

2.1. Corporate Board's Diversity

Board diversity which is a study of heterogeneity, has been used by many firms to improve the efficiency of their organizations and most of these studies showed that a diverse board is more creative and avails resources that allow it to make better decisions (Midavaine, Dolfsma, & Aalbers, 2016; Saidu, 2020; Efenyumi & Okoye, 2023). Recent studies on board diversity see it as the different perspectives that board members bring in input to decisions, a diverse structure ranging from expertise, qualities, adeptness, etc. Boards with diversity can monitor business more effectively by having more input and variety to choose from (Khidmat, Khan & Ullah, 2020; Song, Yoon, & Kang, 2020; Adegboyegun & Adekoyi, 2022). Thus, a well-diversified board branded with specialties will not only mitigate information asymmetry but also aptly improve the quality of reported earnings (Efenyumi & Okoye, 2023).

2.2. Board's Financial Expertise Diversity

According to Adusei (2019), the board saddled with the sole responsibilities of controlling and supervising the company ought to possess the requisite knowledge that would facilitate the discharge of roles. Accordingly, the study noted that Board Financial expertise pertains to the quantity and quality of board members possessing accounting, finance, insurance and management professional skills. In the words of Nielsen and Huse (2010), a varied educational qualification/and or professional expertise in a particular field of study can be a comprehensive measure of diversity. A few existing works of literature substantiating the above position, although with conflicting findings, apparently give room to more investigative research; relating the financial expertise of board members to earnings quality (Garcia-Meca, Garcia-Sanchez & Martinez-Ferrero, 2015; Ji, Peng, Sun & Xu, 2021; Adegboyegun & Adekoyi, 2022; Efenyumi & Okoye, 2023). We, therefore, speculate that:

- *Ho_1: Board's Financial Expertise Diversity does not significantly influence the Earnings Quality of listed firms in Nigeria.*

2.3. Board's Religious Diversity

The concept of religion as an aspect of board diversity is multifaceted. Assemblies of believers have different dogmas and philosophies. Religious systems of beliefs are diverse. According to Chan-Serafin et al., as cited in Akiwunmi, Owolabi and Akintoye (2018), Religiosity is the degree to which a system of feelings, values and emotions is shared by a group and guides members' code of behavior by which individuals may judge the personal and social consequences of their actions. This is upheld by the study of Aviad (2016), that religiosity is an essential contributing factor to the general performance of the organization. Impliedly, board religious diversity may presumably influence the quality of reported earnings significantly. In this promising line of thought, this study intends to explore the relationship between the religiosity of a diverse board with earnings quality; thus hypothesized that:

- *Ho_2: Board's Religious Diversity does not significantly influence the Earnings Quality of listed firms in Nigeria*

2.3.1. Earnings Quality (EARNQ_{ual})

The conceptual definition of earnings quality in firms has been viewed from varied standpoints (Nakashima, 2019; An, 2017). According to Jeroh and Efenyumi (2022), the term earnings quality has two viewpoints: the financial statement users' (decision-usefulness) viewpoint and the Standard setters' (economic-based) viewpoint. From the viewpoint of the financial statement users (decision-usefulness), creditors and investors view the quality of reported earnings as high when $EARNQ_{ual}$ reflects managers' actual performance through easy convertibility of earnings to cash flow (Odjaremu & Jeroh, 2019; Emiaso & Efenyumi, 2021).

In these circumstances, $EARNQ_{ual},$ according to Jeroh & Efenyumi (2022), is the near absence of earnings management or all forms of financial statements' manipulation. Tersely, the degree of compliance and/or deviation from laid down accounting standards is a determinant of the $EARNQ_{ual}$ reported; thus, submitting that the level of earnings manipulation has a multiplier effect on the reported $EARNQ_{ual}$ of the organization. The works of Saleh, Abu Afifa and Alsufy (2020) and Altass (2022) gave supporting evidence that the quality of earnings is crucial in revealing an organization's economic standing and in demonstrating the credibility and dependability of their financial information. Thus, this study adopted the holistic approach to the measurement of $EARNQ_{ual}$ developed by Jeroh and Efenyumi (2022).

2.4. Theoretical Review

This study is based on the theory of Upper Echelon (TUE). According to Hsu, Lai, and Yen (2019), the TUE suggests that having a diverse board can lead to more resources, greater capacity to recognize new opportunities and devise successful plans, better dispute resolution, and, ultimately, improved firm performance. According to the working paper of Nishii, Gotte and Raver (2007), The TUE acknowledges that the varied traits of higher-level managers, such as age and prior work history, can influence their choices about strategy and structure, which, in turn, leads to an organization's ultimate decision-making and performance. Moreover, it emphasizes a leader's bounded rationality in terms of their cognitive, social, and physiological attributes when they make decisions. Hence, Organizations that want to draw in, hold, and capitalize on varied talent are commonly recommended to start by broadening the diversity of their upper-level management. (Ting, Azizanb, & Kweh, 2015).

Having a sound religious belief and an adequate educational and accounting professional qualification is a strategic factor; when it comes to hiring board members that would be able to take on complex tasks, companies need to

employ directors with appropriate cognitive abilities. A board member should possess a suitable pedagogic background coupled with proven professional dexterity that can shape their values and intellectual capacity. The TUE states that directors can differ in their cognitive skills and those cognitive capacities (especially financial expertise) can then influence business performance (Darmadi, 2013; Kagzi & Guha, 2018; Harjoto, Laksmana, & Yang, 2019). Thus an amalgam of pedagogic/ accounting professional dexterity and religiosity would not only influence business performance but also go a long way to improve EARNQ$_{ual}$.

3. Methods

3.1. Sample/Data Gathering
Since the data for this research was secondary and sourced from annual reports of firms listed on the Nigerian Exchange Group for 11 years from 2011 to 2021, the Ex-post facto research design was adopted. Using judgmental sampling, a firm-year observation of 814 was selected, comprising 74 non-financial firms out of 107 as of December 2021.

3.2. Variable Measurement

3.2.1. Explanatory Variable
The predictor variable in this study is the Board Diversity (Financial Expertise and Religious Diversity) measured with the aid of Blau's diversity index for both diversity measures in line with Khidmat, Khan and Ullah (2020). Using a continuous variable to measure financial expertise diversity, we categorize it into board members with Academic Qualifications only, Academic & Non-Accounting Professional Qualifications only, and Academic and Accounting Professional Qualifications only. While the religious diversity measure on a continuous variable was categorized into Traditional, Christianity, Islamic and others.
To calculate the diversity index, we used Blau's diversity index formula:

$$Bi = 1 - \sum_{i=1}^{k} Pi^2$$

Where:
Pi = Proportion of the board members in the ith category of a given attribute
k = No of categories in a given attribute

Variable	Acronym	Description
Expertise Diversity	BLINDEXP	Blau's expertise diversity index
Religious Diversity	BLINDREG	Blau's religious diversity index

Table 1

3.2.2. Response Variable
The dependent variable is the Earnings Quality (EARNQual). The response variable (EARNQual) in this study is measured with the Holistic Earnings Management Model (HEMM) of Jeroh and Efenyumi (2022).

3.2.3. Control Variable
This study used two control variables (Baord Size and Firm Size. While market capitalization was used to measure the firm size (FRMSZ), Board Size (BRDSZ) was measured as the number of sitting board members.

3.2.4. Model Specification
The HEMM developed by Jeroh and Efenyumi (2022) is used in this study. According to Efenyumi et al. (2022), earnings management is a combined function of both accrual quality and real activities' manipulation. Thus the HEMM is based on the residuals of Kothari et al. (2005) and Roychowdhury (2006).
Therefore, EARNQual = DACM + REMM   Eqn.1
Where:
EARNQual = Earnings Management
DACM = Discretionary accruals model of Kothari et al. (2005)
REMM = Real earnings management model of Roychowdhury (2006)
Explicitly, to test the hypotheses,
EARNQual$_{it}$ = ƒ (Board Diversity, Control Variable,)   Eqn.2
Model 1
EARNQual$_{it}$ = α_0 + α_1BLINDEXP$_{it}$ + α_2FRMSZ$_{it}$ + ε_t Eqn.3a
Model 2
EARNQual$_{it}$ = α_0 + α_1BLINDREG$_{it}$ + α_2FRMSZ$_{it}$ + ε_t Eqn.3b

4. Analysis, Result and Discussion

4.1. Summary Statistics

Variables	Earnings Quality	Board Financial Expertise Diversity	Board Religious Diversity	Board Size	Firm Size
Acronym	Earnqual	Blindexp	Blindreg	Brdsz	Frmsz
No. Obsv	814	814	814	814	814
Avrg	-0.0072	0.579	0.6753	8.8931	6.7774
Stnd Dv	0.4839	0.0833	0.0708	2.6778	0.9709
Mn Val	-4.5001	0.2722	0.3114	4	4.7042
Mx Val	2.6473	1	0.75	19	9.6205

Table 2: Summary Statistics
Source: Researchers' Computation, 2023

Table 2 above provides the summary of the statistics for the study with a total of 814 observations from strongly balanced panel data for 74 companies across 11 years. A close look at table 1 revealed that Earnings quality, the response variable, has an average of -0.0072 and a standard deviation (Std. Dv) of 0.4839, ranging between -4.5001 and 2.6473. This indicates that sampled companies demonstrate a similarly slight variation of about 0.72% on average. Also, Board's Financial Expertise Diversity and Board's Religious Diversity which were used to measure Corporate Board Diversity, have averages of 0.5790 and 0.6753 with a corresponding Std. Dv of 0.0833 and 0.0708, respectively, suggesting insignificant deviation in dataset variation. More so, Board Size has the least and the highest members as 4 and 19, with a Firm Size having 4.7042 and 9.6205, respectively.

4.2. Model 1 Hypothesis Testing and Diagnostics

VARIABLES	EARNQ$_{UAL}$	BLINDEXP	BRDSZ	FRMSZ
EARNQ$_{UAL}$	1.0000			
BLINDEXP	0.0450	1.0000		
BRDSZ	-0.1391	0.0150	1.0000	
FRMSZ	-0.1070	0.0345	0.4926	1.0000

Table 3: Board's Financial Expertise Diversity Correlation Result
Source: Researchers' Computation, 2023

The correlation matrix result from Board's Financial Expertise Diversity showed that BLINDEXP is positively correlated with EARNQ$_{ual}$ while BRDSZ and FRMSZ are negatively correlated with EARNQ$_{ual}$; an indication that an increase in BLINDEXP results in proportionate (0.0450 unit) increase in EARNQ$_{ual}$ while BRDSZ and FRMSZ do not. The highest coefficient between the independent variables was found between BRDSZ and FRMSZ at 0.4926. According to Efenyumi, Okoye and Nwoye (2022), the specified model is fit and free from multicollinearity problems since it is below the threshold of 0.8.

4.3. Board's Financial Expertise Diversity Multicolinearity and Heteroskedasticity Tests Result

The Variance Inflation Factor (VIF) test was used to verify the earlier claim of the correlation result whether multicollinearity existed or not, while the Breush-pagan/Cook Weisberg (B-P/CW) test was used for heteroskedasticity and the results are displayed below:

Variable	VIF	1/VIF
BLINDEXP	1.00	0.998805
BRDSZ	1.32	0.75739
FRMSZ	1.32	0.756659
MEAN VIF	1.21	
B-P/CW Test for Heteroskedasticity		
chi2(1)	4.44	
Prob>chi2	0.0352	
Researchers' Computation, 2023		

Table 4: VIF & B-P/CW Results

From the above, the VIF result confirmed the absence of multicollinearity since the mean VIF is 1.21, which is below the stipulated value of 10. However, the B-P/CW result showing Chi2(1) of 4.44 and a p-value of 0.035 which is less than 0.05, confirms the presence of heteroskedasticity, implying that we cannot rely on our OLS result necessitating the submission of the Robust Regression Technique.

4.4. Panel Unit Root Test

To determine the stationarity of the panel data, we used the Harri-Tzavalis unit root test and the result is shown below:

Variable	EARNQual	BLINDEXP	BRDSZ	FRMSZ
Statistic	-0.0105	-0.0714	0.5367	0.7184
Z	-25.7848	-27.8484	-7.2334	-1.0729
p-value	0.0000	0.0000	0.0000	0.1416

Table 5: Panel Unit Root Test
Source: Researchers' Computation, 2023

The statistics, along with the p-value, showed the fitness of the model and validated our choice of testing the hypothesis with Robust Regression.

4.4.1. Model 1 Hypothesis Testing

Response Variable: Earnings Quality (EARNQual)					
Explanatory Variables	Coefficient	Std. Error	t-statistics	P>|t|	Decision
BLINDEXP	0.2533932	0.1628717	1.56	0.120	
BRDSZ	-0.0147773	0.0058187	-2.54	0.011	
FRMSZ	-0.0111479	0.0160570	-0.69	0.488	Reject
_CONS	0.0395344	0.1320432	0.3	0.765	
F(3, 810)	4.55*				
P-value	0.0036				
NO OBSV	814				
Researchers' Computation, 2023					

Table 6: Robust Regression Result for Testing Hypothesis 1

A cautious review of the statistical data from table 6 tells us that the control variables (BRDSZ and FRMSZ) have negative coefficients (-0.0147773 and -0.0111479), while the key predictor (BLINDEXP) has a positive coefficient (0.2533932), showing that there is a good relationship between the EARNQual and BLINDEXP.

With the outcome of Fstat, we contend that BLINDEXP influences EARNQual of Nigerian listed companies. This apparently high degree of dependability and accuracy is evident in the small values of the reported standard errors. Based on the above findings, we have decided to reject the null hypothesis that the Board's Financial Expertise Diversity has no obvious effect Earnings Quality of listed firms in Nigeria since the computed Fstat is 4.55 and the corresponding p-value is 0.0036. We, therefore, deduce from this that companies' Earnings Quality is significantly influenced by the Financial Expertise of Corporate Boards.

4.4.2. Model 2 Hypothesis Testing and Diagnostics

VARIABLES	EARNQUAL	BLINDREG	BRDSZ	FRMSZ
EARNQUAL	1.0000			
BLINDREG	0.0424	1.0000		
BRDSZ	-0.1391	-0.1652	1.0000	
FRMSZ	-0.1070	-0.0515	0.4926	1.0000

Table 7: Board's Religious Diversity Correlation Result
Source: Researchers' Computation, 2023

The correlation matrix result from Board's Religious Diversity showed that BLINDREG is positively correlated with EARNQual while BRDSZ and FRMSZ are negatively correlated with EARNQual; an indication that an increase in BLINDREG results in proportionate (0.0424 unit) increase in EARNQual while BRDSZ and FRMSZ do not. The highest coefficient between the independent variables was found between BRDSZ and FRMSZ at 0.4926. According to Efenyumi et al. (2022), since all the values are below the threshold of 0.8, the model is fit and free from multicollinearity complications.

4.5. Board's Religious Diversity Multicolinearity and Heteroskedasticity Tests Result

The VIF test was used to demonstrate whether multicollinearity existed or not, as shown by the correlation result, while the B-P/CW test was used for heteroskedasticity and the results are displayed below:

Variable	VIF	1/VIF
BLINDREG	1.03	0.971514
BRDSZ	1.36	0.737774
FRMSZ	1.32	0.756474
MEAN VIF	1.24	
B-P/CW Test for Heteroskedasticity		
chi2(1)	2.34	
Prob>chi2	0.1257	
Researchers' Computation, 2023		

Table 8: VIF & B-P/CW Results

From the above, the VIF result confirmed the absence of multicollinearity since the mean VIF is 1.24, which is below the stipulated value of 10. However, the B-P/CW result showed Chi2(1) of 2.34 and a p-value of 0.1257 which is greater than 0.05, thus confirming the absence of heteroskedasticity, implying that we can rely on our OLS result in testing hypothesis 2.

4.6. Panel Unit Root Test

To determine the stationarity of the panel data, we used the Harri-Tzavalis unit root test and the result is shown below:

Variable	$EARNQ_{ual}$	BLINDREG	BRDSZ	FRMSZ
Statistic	-0.0105	-0.0544	0.5367	0.7184
Z	-25.7848	-27.2719	-7.2334	-1.0729
p-value	0.0000	0.0000	0.0000	0.1416

Table 9: Panel Unit Root Test
Source: Researchers' Computation, 2023

The statistics, along with the p-value, showed the fitness of the model and validated our choice of testing the hypothesis with the OLS Regression.

4.6.1. Model 2 Hypothesis Testing

Response Variable: Earnings Quality (EARNQual)					
Explanatory Variables	Coefficient	Std. Error	t-statistics	P>|t|	Decision
BLINDREG	0.1475081	0.2408661	0.61	0.540	
BRDSZ	-0.0198834	0.0073107	-2.72	0.007	
FRMSZ	-0.0257468	0.0199136	-1.29	0.196	**Reject**
_CONS	0.2445110	0.2059928	1.19	0.236	
F(3, 810)	6.00*				
P-value	0.0005				
NO OBSV	814				
Researchers' Computation, 2023					

Table 10: OLS Regression Result for Testing Hypothesis 2

A cursory review of the statistical data from table 10 conveys that the control variables (BRDSZ and FRMSZ) have negative coefficients (-0.0198834 and -0.0257468) while the key predictor (BLINDREG) has positive coefficient (0.1475081) showing that there is a good relationship between the $EARNQ_{ual}$ and BLINDREG.

With Fstat, we maintained that BLINDREG influences $EARNQ_{ual}$ of Nigerian listed companies and the small values of the reported standard errors explained the high level of precision in the model estimates. The findings from the above have suggested that the null hypothesis, that the Board's Religious Diversity does not have an exact substantial effect on Earnings Quality of listed firms in Nigeria, should be rejected since the computed Fstat is 6.00, conforming with a p-value of 0.0005. We, therefore, upheld that companies' Earnings Quality is significantly influenced by the Religiosity of Corporate Boards.

5. Conclusion and Recommendations

This research work evaluated the influence of corporate boards' diversity on the earnings quality of listed firms in Nigeria, paying exceptional attention to the influence of financial expertise diversity and religious diversity. Using the holistic Earnings management model with the help of Blau's index of diversity on a sample of 74 companies, the result showed that both the financial expertise diversity and religious diversity of corporate boards are not only key components but drivers of companies' earnings quality in Nigeria. Therefore, we conclude that corporate boards' financial expertise and religious diversity significantly influence the earnings quality of listed firms in Nigeria. This study, thus, recommended that:

- Regulatory Authorities should encourage companies to ensure adequate diversity of the board, especially in the aspect of the financial expertise of board members; a mix of both academic and professional qualifications in accounting, management, finance and risk/insurance for better earnings quality that would attract investors.
- The Nomination/Governance subcommittee of the board should aggregate seasoned and proven religious practitioners in the corporate board as such would deter earnings management by the company's management and foster reliable and high earnings quality.

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