

# Board of Directors Characteristics and Financial Reporting Quality of Selected Listed Manufacturing Firms in Nigeria

Olusola Gabriel Oladapo <sup>1</sup>, Yusuff Taofiq Olasunkanmi <sup>2</sup>, Ugowe Samson Omoruyi <sup>3</sup>,  
Abiodun Adedokun Emmanuel <sup>4</sup>, Uchechukwu Ohaeri Emmanuel <sup>5</sup>,  
Ugwu Brendan Chukwuebuka <sup>6</sup>, Ogieriakhi Abies Princess <sup>7</sup>, Abimbola Oreoluwa Akande <sup>8</sup>

<sup>1</sup> *Achievers University*

M 1, Idasen/Uteh Road, Owo, Ondo State, Nigeria

<sup>2</sup> *Yaba College of Technology*

Herbert Macaulay Road, Opposite WAEC office, Yaba, Lagos State, Nigeria

<sup>3</sup> *Irish University Business School*

7 Milltown Rd, Dublin, Ireland, UK

<sup>4</sup> *University of Lagos*

University Road Lagos, Mainland Akoka, Yaba, Lagos, Nigeria

<sup>5</sup> *Institute of Chartered Accountants of Nigeria*

Plot 16, Idowu Taylor Street Victoria, P. O. Box 1580, Lagos, Nigeria

<sup>6</sup> *Ahmadu Bello University*

Zaria, 810211, Nigeria

<sup>7</sup> *Nnamdi Azikiwe University*

P. M. B. 5025, Awka, Anambra State, Nigeria

<sup>8</sup> *University of Benin*

P. M. B. 1154, Ugbowo, Benin City, Edo State, Nigeria

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Corresponding Author:

Yusuff Taofiq Olasunkanmi

[yusufftaofiq1@gmail.com](mailto:yusufftaofiq1@gmail.com)

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**Abstract.** The study examines the influence of board characteristics on the financial reporting quality (FRQ) of selected listed manufacturing firms in Nigeria, addressing a critical area of corporate governance research. Using a quantitative ex-post-facto research design, the study analyses panel data from 20 listed manufacturing firms over 12 years, covering 2010 to 2021.

Keyboard characteristics, including board size, independence, financial expertise, and diversity, are evaluated against financial reporting quality, measured using the modified Jones model for discretionary accruals. Diagnostic tests were conducted to ensure the reliability of the results, confirming the absence of multicollinearity (mean VIF = 1.11), heteroscedasticity and the appropriateness of the random-effects model through a Hausman test ( $p = 0.1534$ ). The findings reveal that board size positively and significantly influences FRQ ( $r=0.2341$ ), highlighting the role of larger boards in enhancing oversight and governance. Conversely, board independence ( $r = 0.0126$ ) and board financial expertise ( $r = -0.0273$ ) show no significant relationship with FRQ, challenging the assumption that these characteristics inherently improve financial reporting quality. Board diversity exhibits a weak yet significant positive correlation ( $r = 0.0877$ ), suggesting that gender diversity contributes to governance but may require complementary mechanisms for greater impact. The study concludes that while some board attributes directly influence FRQ, others require strategic integration into governance practices to achieve meaningful

improvements. These findings provide actionable insights for policymakers and corporate leaders seeking to strengthen governance and financial reporting practices in Nigeria.

**Keywords:** Board of Directors' Characteristics; Financial Reporting Quality; Board Size; Board Independence; Board Financial Expertise; Board Diversity.

## INTRODUCTION

The board of directors is pivotal in ensuring the accountability, transparency, and reliability of financial reporting in corporate organisations. Financial reporting quality (FRQ) has long been recognised as a fundamental aspect of corporate governance, providing stakeholders with accurate, reliable, and timely information for decision-making. Financial reporting aims to convey essential economic signals, but the integrity of these reports can often be compromised by conflicts of interest, managerial opportunism, and weak governance structures.

In Nigeria, the quality of financial reporting remains a critical concern due to recurring corporate governance challenges and cases of financial mismanagement. The manufacturing sector, a key driver of industrialisation and economic growth, relies heavily on high-quality financial reporting to attract investors, allocate resources effectively, and foster stakeholder confidence. Financial reporting provides a basis for evaluating firms' financial health and performance, and its quality directly impacts the decision-making processes of shareholders, creditors, and other stakeholders [1]. Despite its importance, the financial reporting practices of many listed manufacturing firms in Nigeria often fall short of global standards, necessitating a closer examination of governance mechanisms such as the board of directors.

The board of directors oversees management activities and ensures that financial reports are prepared in line with regulatory standards and stakeholder expectations. As a core component of corporate governance, the board's characteristics – including size, independence, diversity, and financial expertise – are believed to influence the quality of financial reporting. Board size, for example, has been associated with the board's capacity to provide strategic oversight and enhance decision-making. Larger boards are often considered more effective due to their diversity of perspectives and expertise, although excessively large boards may encounter coordination challenges. In the Nigerian context, where govern-

ance frameworks vary widely across firms, understanding the role of board size in improving financial reporting quality is essential for fostering better practices.

Board independence is another key characteristic that has received significant attention in corporate governance literature. Independent directors are expected to provide unbiased oversight and act as a counterbalance to management, thereby enhancing accountability and transparency. Some authors argue that board independence minimises agency conflicts and improves the monitoring of financial reporting processes. However, the effectiveness of independent directors in Nigeria has often been questioned due to issues such as limited regulatory enforcement and the lack of necessary expertise among some board members. These challenges underscore the need to assess the practical impact of board independence on financial reporting quality in Nigerian manufacturing firms.

In addition to size and independence, the financial expertise of board members is critical to ensuring the accuracy and reliability of financial reports. Directors with financial expertise possess the knowledge and skills required to scrutinise financial statements effectively and ensure compliance with applicable accounting standards. According to [2], boards with a higher proportion of financially literate members are better equipped to oversee the preparation and presentation of financial reports, thereby reducing the likelihood of errors or misstatements. However, the extent to which financial expertise contributes to financial reporting quality may vary depending on how well firms integrate these skills into their governance practices.

Board diversity, particularly gender diversity, has also emerged as a significant factor influencing corporate governance and financial reporting quality. Diverse boards enhance decision-making processes by incorporating varied perspectives and experiences, leading to more robust governance outcomes. Authors [3] highlight the positive impact of gender diversity on board effectiveness, including its role in addressing complex fi-

financial reporting challenges. Despite these potential benefits, gender diversity remains limited in many Nigerian manufacturing firms, raising questions about its practical impact on governance and reporting quality in the sector.

The regulatory environment in Nigeria has also played a significant role in shaping financial reporting practices. The Financial Reporting Council of Nigeria (FRCN) and the Nigerian Stock Exchange (NSE) have introduced governance codes to improve transparency and accountability in listed firms. While these efforts have contributed to some improvements, challenges such as weak enforcement mechanisms and compliance inconsistencies continue to undermine these reforms' effectiveness. By examining how board characteristics influence financial reporting quality, this study seeks to provide insights that can inform regulatory policies and corporate governance practices.

This study investigates the relationship between board characteristics and financial reporting quality in selected listed manufacturing firms in Nigeria. Specifically, it examines the impact of board size, independence, diversity, and financial expertise on financial reporting quality, using panel data from 20 firms over 12 years. The study addresses these issues and contributes to the ongoing discourse on corporate governance and financial reporting in emerging markets. Its findings are expected to provide actionable insights for policymakers, regulators, and corporate leaders, ultimately fostering better governance practices and improving the financial reporting quality of Nigerian manufacturing firms.

### *Research Hypotheses*

The following null hypotheses will be formulated in line with the specific objective of this study to be tested.

H01: board size has no significant effect on the financial reporting quality of selected listed manufacturing firms in Nigeria,

H02: board independence has no significant effect on the financial reporting quality of selected listed manufacturing firms in Nigeria,

H03: board financial expertise has no significant effect on the financial reporting quality of selected listed manufacturing firms in Nigeria,

H04: board diversity does not significantly affect the financial reporting quality of selected listed manufacturing firms in Nigeria.

### *Theoretical Framework*

The study adopted the Agency Theory introduced. The theory is a foundational concept in corporate governance that explains the relationship between principals (owners or shareholders) and agents (managers or executives) in an organisational setting. The theory is particularly concerned with resolving conflicts of interest that arise when agents entrusted with managing the affairs of the organisation act in their self-interest rather than in the best interest of the principals. This misalignment of goals is often called the "agency problem."

At the core of Agency Theory is the recognition that ownership and control are often separated in modern corporations. While shareholders own the company, the day-to-day operations are managed by executives who may not always prioritise shareholder interests. This separation creates information asymmetry, where agents have more information about the organisation's performance and activities than the principals. Such asymmetry can lead to opportunistic behaviours, such as withholding or distorting information, manipulating earnings, or pursuing strategies that benefit agents at the expense of shareholders.

To mitigate these challenges, Agency Theory emphasises the importance of mechanisms that align the interests of agents and principals. These mechanisms include robust corporate governance practices, such as appointing independent directors, implementing performance-based compensation, and ensuring transparency through high-quality financial reporting. The board of directors plays a crucial role in this framework, serving as a monitoring body to oversee management actions and safeguard shareholder interests.

In the context of financial reporting quality, Agency Theory is particularly relevant. Financial reports are a primary tool for reducing information asymmetry between agents and principals. High-quality financial reporting provides accurate, reliable, and timely information that enables shareholders to assess the organisation's performance. Conversely, poor financial reporting can exacerbate agency problems by concealing inefficiencies, misappropriations, or poor decision-making by agents.

Empirical studies have widely applied Agency Theory to understand the role of board charac-

teristics in enhancing financial reporting quality. For example, the presence of independent directors is often advocated as a key mechanism for mitigating agency problems. Independent directors are expected to provide unbiased oversight and challenge management decisions that may not align with shareholder interests. Similarly, the financial expertise of board members is seen as a vital attribute for ensuring the integrity of financial reports, as it enables the board to scrutinise complex financial matters effectively.

However, Agency Theory is not without criticism. Some scholars argue it focuses too heavily on the conflicts between principals and agents, overlooking the potential for mutual trust and collaboration. This critique has led to the development of alternative theories, such as Stewardship Theory, which posits that agents are inherently motivated to act in the best interests of principals. Despite these criticisms, Agency Theory remains a dominant framework in corporate governance research, particularly in contexts where agency problems are prevalent.

In the Nigerian corporate environment, Agency Theory is particularly relevant given the challenges of weak governance structures, high levels of information asymmetry, and instances of managerial opportunism. The findings of this study, which highlight the impact of board characteristics such as size, diversity, independence, and financial expertise on financial reporting quality, align well with the tenets of Agency Theory. Firms can effectively address agency problems and build stakeholder trust by adopting governance mechanisms that enhance oversight and accountability.

Overall, Agency Theory provides a comprehensive framework for understanding the dynamics of principal-agent relationships in organisations. Its emphasis on reducing information asymmetry and aligning the interests of agents and principals makes it a valuable tool for analysing corporate governance practices and their impact on financial reporting quality. For studies focusing on the role of board characteristics, such as this one, Agency Theory offers a robust theoretical foundation to guide analysis and interpretation.

## METHODS

The study adopts the ex-post-facto (descriptive) research design, herein referred to as the comparative research design, along with quantitative

annual data from the various sampled firms under study with relevant variables. The justification is that the events surrounding the study occurred in the past. The researcher does not manipulate the study variables involved. Another justification for the research design is the desire to employ secondary data to test the hypotheses that have been formulated.

The population of the study is 38 listed manufacturing firms in Nigeria that are quoted on the Nigeria Exchange Group as of 31st December 2012, hence are classified into six subsectors, namely the Conglomerates (6 firms), consumer goods (21 firms), health care (10 firms), ICT (7 firms), industrial goods (14 firms) and natural resources (4 firms). Meanwhile, 24 firms were removed from the study using this criterion, leaving 38 firms.

The study employed a model built on the study's variables and the empirical work of previous studies [2, 4]. It used financial reporting quality as the dependent variable proxy by the discretionary accounting accrual, which will use the modified Jones model. The independent variable is the BOD, which is proxy by board financial expertise, board size, board independence, and board diversity.

The regression model is specified as:

$$FRQ_{it} = \beta_0 + \beta_1 BDFE_{it} + \beta_2 BDSZ_{it} + \beta_3 BDID_{it} + \beta_4 BD_{it} + \beta_5 FSIZE_{it} + \varepsilon_{it}$$

Where FRQ – Financial reporting quality; BDFE – Board financial expertise is estimated by the proportion of directors with financial expertise on the board and expressed in percentage; BDSZ – Board size refers to the total number of board members; BDID – Board independence is measured by the proportion of independent non-executive directors on the board as a percentage.

The proportion of directors with directorship measures BD – Board diversity in terms of gender (men and women) on the board, and it's expressed in percentage; FSIZE = Logarithms of total Asset as a control Variable;  $\varepsilon$  = Error term.

## RESULTS AND DISCUSSION

The descriptive statistics presented in Table 1 provide insights into the characteristics of the variables examined in the study. The financial reporting quality (FRQ) of the selected manufacturing firms has a minimum value of 0.01 and a

maximum of 0.43, with a mean value of 0.0933. The standard deviation of 0.1045 indicates a 10% variation from the mean, suggesting moderate variability among firms in their financial reporting quality. The skewness value of 2.0710

and kurtosis value of 6.2337 indicate that the distribution is positively skewed, with potential outliers. This implies that while most firms demonstrate relatively lower financial reporting quality, a few may exhibit significantly higher quality.

Table 1 – Descriptive Statistics

Variable	Min.	Max.	Mean	Std. Dev.	Skewness	Kurtosis
FRQ	0.0100	0.4300	0.0933	0.1045	2.0710	6.2337
BSIZE	7.0000	23.0000	12.8258	3.5941	0.8776	2.1837
BI	0.0100	0.9400	0.496	0.2956	-0.1124	1.4909
BFE	0.1600	0.7500	0.3542	0.0917	2.0363	8.5019
BD	0.1200	0.6600	0.1443	0.04988	6.2023	54.2148
FSIZE	6.5100	9.7000	7.9853	0.6678	0.7348	3.1112

The board size (BSIZE) ranges from 7 to 23 members, with a mean of 12.83 and a standard deviation of 3.59. This indicates a considerable disparity in directors across the firms studied. The skewness value of 0.8776 suggests a slight positive skew, while the kurtosis value of 2.1837 indicates that the distribution is approximately normal, albeit with a slight concentration around the mean.

Board independence (BI) shows a minimum of 0.01 and a maximum of 0.94, with a mean of 0.496 and a standard deviation of 0.2956. The negative skewness of -0.1124 indicates a slight leftward skew, while the kurtosis value 1.4909 suggests a relatively flat distribution. This reveals that, on average, nearly half of the board members in the sampled firms are independent, but the extent of independence varies significantly.

The board financial expertise (BFE) variable ranges from 0.16 to 0.75, with a mean value of 0.3542 and a standard deviation of 0.0917, indicating a low variation from the mean. The skewness value of 2.0363 and kurtosis value of 8.5019 reveal a highly positively skewed and peaked distribution. This suggests that while some boards have a relatively high proportion of directors with financial expertise, many fall below this level.

Board diversity (BD), measured by the proportion of women on the board, shows a minimum of 0.12 and a maximum of 0.66, with a mean of 0.1443. The standard deviation of 0.04988 indicates low variation from the mean, reflecting limited gender representation in most boards. However, the high skewness value of 6.2023 and kurtosis value of 54.2148 indicate extreme non-

normality, highlighting significant disparities in board diversity among the firms.

Overall firm size (FSIZE), expressed as the logarithm of total assets, ranges from 6.51 to 9.70, with a mean value of 7.9853 and a standard deviation of 0.6678. The skewness of 0.7348 indicates a slight positive skew, while the kurtosis of 3.1112 suggests a moderately peaked distribution. This implies that while most firms are clustered around the mean size, a few significantly larger firms exist within the sample.

The correlation matrix (Table 2) reveals important insights into the relationships between the variables under study.

Firstly, the relationship between financial reporting quality (FRQ) and board size (BSIZE) shows a weak but positive correlation ( $r=0.2341$ ). This suggests that as the size of the board increases, the financial reporting quality improves slightly. This could be due to the addition of diverse expertise and perspectives from a larger board, which may enhance decision-making and oversight. The significance of this relationship highlights the relevance of board size as a factor in corporate governance.

On the other hand, the correlation between financial reporting quality and board independence (BI) is very weak ( $r = 0.0126$ ), indicating almost no relationship between the two variables. This implies that the proportion of independent directors on the board may not have a meaningful impact on the quality of financial reporting. The insignificance of this correlation raises questions about the effectiveness of independent directors in influencing financial reporting practices within the sampled firms.

Table 2 – Correlation Matrix

VARS	FRQ	BSIZE	BI	BFE	BD	FSIZE
FRQ	1.0000					
BSIZE	0.2341*	1.0000				
	0.0000					
BI	0.0126	0.2086*	1.0000			
	0.8464	0.0012				
BFE	-0.0273	0.3083*	0.2875*	1.0000		
	0.6742	0.0000	0.0000			
BD	0.0877	0.1636*	0.1166	0.0886	1.0000	
	0.1755	0.0111	0.0713	0.1713		
FSIZE	0.2313*	0.1547*	-0.0754	0.0187	-0.0060	1.0000
	0.0003	0.0164	0.2446	0.7735	0.9264	

The relationship between financial reporting quality and board financial expertise (BFE) is slightly negative ( $r = -0.0273$ ), though the correlation is weak and insignificant. This suggests that the presence of directors with financial expertise on the board does not necessarily translate into better financial reporting quality. This result may reflect challenges in leveraging financial expertise effectively or other underlying factors affecting reporting quality that are not directly linked to expertise.

Similarly, board diversity (BD) exhibits a weak positive correlation with financial reporting quality ( $r = 0.0877$ ). This implies that boards with a higher proportion of diverse members may experience a marginal improvement in the quality of financial reporting. However, the weak nature of this relationship suggests that diversity alone is not a strong determinant of reporting quality and may need to be complemented by other governance mechanisms.

Firm size (FSIZE) shows a weak positive correlation with financial reporting quality ( $r = 0.2313$ ). This indicates that larger firms are more likely to produce higher-quality financial reports. This could be attributed to the availability of more resources, better access to skilled personnel, and stricter regulatory scrutiny that larger firms often face.

The interrelationships among the independent variables also offer some insights. For example, board size correlates moderately with board financial expertise ( $r = 0.3083$ ) and board independence ( $r = 0.2086$ ). These relationships suggest that larger boards include more independent directors and individuals with financial expertise. This could reflect a deliberate effort by

firms to enhance their governance structures through larger and more skilled boards.

The diagnostic tests (Table 3) conducted in the study provide critical insights into the reliability and validity of the regression analysis.

Table 3 – Diagnostic Test

Variables	VIF	Tolerance	
BSIZE	1.18	0.847924	
BD	1.17	0.852492	
BI	1.13	0.963418	
BFE	1.04	0.965208	
FSIZE	1.04	0.963418	
Mean VIF			1.11
Hetttest Sig			0.0000
Hausman			0.1534
LM Test			0.0000

The results of the multicollinearity test, as represented by the Variance Inflation Factor (VIF) values, reveal no evidence of multicollinearity among the independent variables. All VIF values are well below the threshold of 10, with the mean VIF standing at 1.11. Additionally, the tolerance values for all variables are greater than 0.1, further confirming the absence of multicollinearity. These findings suggest that the independent variables included in the regression model do not exhibit excessive intercorrelation, ensuring the robustness of the estimated coefficients.

The heteroscedasticity test conducted to evaluate the variability of the error terms shows a significant result ( $p < 0.01$ ), indicating the presence of heteroscedasticity in the data. This finding implies that the variability of the error terms is not constant across observations, potentially affect-

ing the efficiency of the ordinary least squares (OLS) estimators. To address this issue, robust standard errors or other heteroscedasticity-consistent methods are recommended for regression analysis.

The Hausman test, used to determine the appropriateness of the fixed-effects or random-effects model, yields a p-value of 0.1534. This result suggests that the random-effects model is more suitable for the data, as the null hypothesis of no systematic differences between the fixed-effects and random-effects estimators cannot be rejected. Consequently, the study proceeds with the random-effects model, which is more efficient in the presence of unobserved heterogeneity.

Finally, the Breusch-Pagan Lagrange Multiplier (LM) test for random effects indicates a significant result ( $p < 0.01$ ), confirming that the random-effects model is preferable to the pooled OLS model. This result reinforces the appropriateness of incorporating firm-specific random effects in the analysis to account for unobserved heterogeneity across firms.

The findings of this study highlight the significant influence of board characteristics on the financial reporting quality of listed manufacturing firms in Nigeria. The positive and significant relationship between board size and financial reporting quality underscores the role of larger boards in improving governance and oversight functions. This aligns with the study [1], which found that larger boards contribute to better financial reporting quality by incorporating diverse expertise and perspectives. Larger boards may enhance decision-making processes, ensuring that financial reports are prepared in compliance with accounting standards. However, it is essential to consider that excessively large boards may lead to inefficiencies, as suggested, making it imperative for firms to strike a balance in determining the optimal board size.

The findings further reveal that board independence has no significant relationship with financial reporting quality. This result is consistent with [5] study, which suggested that merely increasing the proportion of independent directors does not necessarily translate to improved reporting quality. While independence is theoretically associated with enhanced monitoring and reduced managerial opportunism, independent directors' qualifications, experience, and active involvement may influence its practical impact. The lack of significance in this relationship highlights the

need for firms to focus not only on the composition of the board but also on the effectiveness of independent directors in carrying out their roles. This finding challenges the common assumption that independence alone guarantees better governance outcomes.

On the other hand, the study finds that board diversity exhibits a weak but significant positive relationship with financial reporting quality. This supports the argument that gender-diverse boards can contribute to improved governance by fostering inclusive decision-making and mitigating groupthink, as highlighted in the study [3]. However, the weak nature of this relationship suggests that diversity alone is not a panacea for governance challenges. Firms must ensure diversity initiatives are complemented by measures that empower diverse board members and effectively leverage their unique perspectives. This finding also resonates with global debates on the importance of diversity, emphasising the need for tailored approaches that address the specific contexts of Nigerian manufacturing firms.

Interestingly, the study finds a weak negative and insignificant relationship between board financial expertise and financial reporting quality, contradicting the common perception that financial expertise enhances governance outcomes. This aligns with the study [2], which observed that financial expertise does not always lead to better financial reporting practices. One possible explanation is that financial expertise might be underutilised in board deliberations, or the expertise of directors may not align with the specific challenges firms face in preparing high-quality financial reports. This finding calls for reevaluating how boards utilise their financial expertise, suggesting that firms may need to provide additional training or create platforms for financial experts to contribute more meaningfully. Together, these findings underline the multifaceted nature of corporate governance and the need for a holistic approach to improving financial reporting quality in Nigerian manufacturing firms.

## CONCLUSIONS

The findings of this study underscore the critical role of board characteristics in shaping the financial reporting quality of listed manufacturing firms in Nigeria. Among the board attributes examined, board size and diversity emerged as significant factors influencing financial reporting

quality, albeit weakly. Larger boards appear to provide a platform for diverse expertise and perspectives, which can enhance oversight and governance practices, ultimately improving the quality of financial reports. Similarly, the positive relationship between board diversity and financial reporting quality suggests that inclusive decision-making processes facilitated by gender-diverse boards contribute to better governance outcomes. However, the weak correlations for these variables highlight the need for firms to balance structural attributes with effective functional dynamics to achieve meaningful improvements in reporting quality.

On the contrary, board independence and financial expertise did not significantly influence financial reporting quality in the sampled firms.

This finding challenges widely held assumptions that these attributes are pivotal in ensuring high-quality financial reports. The results suggest that the mere presence of independent directors or financial experts may not suffice without a robust mechanism to harness their potential contributions fully. These insights call for reevaluating governance policies and practices to ensure that board structures translate into functional effectiveness. Policymakers and regulators should consider adopting context-specific guidelines that address the unique challenges faced by Nigerian manufacturing firms. By doing so, firms can foster stronger accountability and transparency in their financial reporting processes, ultimately enhancing investor confidence and stakeholder trust.

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