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Board Attributes and Financial Reporting Quality of Listed Non-Financial Firms in Nigeria: The Mediating Role of Profitability

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Abstract

This study examines the effect of board attributes on the financial reporting quality (FRQ) of listed non-financial firms in Nigeria, with profitability introduced as a mediating variable. Motivated by recurring financial disclosure lapses and governance controversies in the Nigerian capital market, most notably the Securities and Exchange Commission's investigation into Oando Plc, the study investigates five dimensions of board attributes: board gender diversity, board independence, board financial expertise, board age diversity, and the novel construct of geopolitical zone diversity. Using a panel of 74 listed non-financial firms over the period 2012 to 2024, comprising 962 firm-year observations, financial reporting quality was proxied by discretionary accruals estimated through the performance-matched Modified Jones Model. Data were analysed using descriptive statistics, correlation analysis, a battery of pre-estimation diagnostic tests, and Structural Equation Modelling (SEM) with Maximum Likelihood estimation and MEDSEM-based mediation analysis. The study is anchored on Agency Theory, Stewardship Theory, and Resource Dependence Theory. Findings reveal that board financial expertise exerts the strongest positive effect on financial reporting quality, board independence and geopolitical zone diversity also significantly influence financial reporting quality, while board gender diversity and board age diversity show no significant direct effects. Profitability significantly and negatively predicts discretionary accruals, indicating that more profitable firms report at higher quality, and it partially transmits the effects of board gender diversity, age diversity and geopolitical zone diversity on reporting quality, although these indirect paths are only marginally significant. The study recommends that the Financial Reporting Council of Nigeria and the Securities and Exchange Commission strengthen minimum financial-expertise requirements for board composition, reinforce the technical competence of independent directors, and encourage geopolitically inclusive board nomination policies as direct governance levers for improving financial reporting quality among Nigerian non-financial firms.

Keywords: Board attributes, financial reporting quality, discretionary accruals, profitability, structural equation modelling, Nigeria

Introduction

Financial reporting quality (FRQ) is widely regarded as a key indicator of effective corporate governance, providing the foundation for transparency, accountability, and trust in financial markets. It captures the extent to which financial statements accurately represent a company's financial position, performance, and cash flows, allowing stakeholders to make informed decisions (Shatima et al., 2020). High-quality financial reporting is characterised by relevance, reliability, comparability, and timeliness, ensuring that financial information is free from material misstatement and reflects the economic reality of the reporting entity (International Accounting Standards Board [IASB], 2018). The significance of FRQ has been increasingly recognised in emerging markets such as Nigeria, where the integrity of financial reports is central to attracting investment and sustaining economic development (Adedeji & Asaolu, 2022).

Ignoring financial reporting quality exposes firms to severe governance, regulatory, and reputational consequences, as illustrated by the governance controversy involving Oando Plc, where the Securities and Exchange Commission (SEC) of Nigeria launched an investigation into allegations of inaccurate disclosures, insider dealings, and weaknesses in internal control. The episode weakened investor confidence and reaffirmed the importance of robust board oversight for the credibility of financial disclosures among listed non-financial firms in Nigeria. Despite reforms such as the Nigerian Code of Corporate Governance (NCCG, 2021), weak enforcement of accounting standards and governance inefficiencies continue to produce inconsistencies in reported earnings (Adeyemi & Fagbemi, 2021).

As traditional governance mechanisms struggle to guarantee consistent reporting quality, growing attention has turned to internal governance attributes, particularly the composition and diversity of corporate boards, as a means of strengthening oversight. Board attributes refer to the structural, demographic, and competency characteristics of a company's board of directors that shape its capacity for effective oversight, strategic guidance, and monitoring (Ugwoke et al., 2021). This study focuses on five dimensions: board gender diversity, board independence, board financial expertise, board age diversity, and geopolitical zone diversity, a construct that reflects the representation of Nigeria's six geopolitical zones on corporate boards and remains largely unexplored in the governance literature.

Profitability is theorised to interact with these governance attributes in shaping reporting outcomes. Firms with stronger financial performance generally face fewer incentives to manipulate earnings, as their results already signal favourable prospects to investors, and they are better resourced to invest in robust internal controls and reporting systems (Barth & Landsman, 2021). Conversely, firms under profitability pressure may resort to aggressive accounting choices to meet targets, compromising reporting integrity. The study therefore examines both the direct effects of board attributes on financial reporting quality and the direct effect of profitability on financial reporting quality, within a single integrated structural model estimated on listed non-financial firms operating across Nigeria's manufacturing, agriculture, retail, and services sectors.

The domain of the study is listed non-financial firms in Nigeria, spanning manufacturing, agriculture, retail, and services, sectors that are central to the country's economic development. Non-financial firms contribute significantly to employment generation, industrial output, and gross domestic product growth; the manufacturing sector alone accounted for approximately 8.6 per cent of Nigeria's GDP in the second quarter of 2023, with the broader manufacturing, mining, and quarrying sector employing about 11.3 per cent of the national labour force as of the first quarter of 2025 (National Bureau of Statistics, 2025). Despite this economic weight, non-financial firms differ from financial institutions in that they are not subject to the Central Bank of Nigeria's prudential guidelines, which permits greater variability in governance structures and disclosure practices and makes them a particularly suitable context for isolating the influence of board attributes on financial reporting quality without the confounding effect of uniform regulatory compliance.

Statement of the Problem

Nigeria has witnessed several instances of financial disclosure lapses and governance irregularities among listed non-financial firms, raising concerns about the reliability of corporate financial statements. Non-financial firms, spanning diverse and operationally complex industries, continue to struggle with transparency and accuracy in reporting despite the introduction of the NCCG (Akinlo & Dada, 2022). While diverse boards are theorised to bring varied perspectives that strengthen oversight, the extent to which specific dimensions of board attributes, gender, independence, financial expertise, age, and geopolitical representation, affect financial reporting quality remains underexplored in the Nigerian non-financial sector.

A further gap concerns methodology. Much of the extant Nigerian literature, including Akinlo and Dada (2022), relies on conventional regression techniques that estimate governance-reporting relationships in isolation and struggle to capture the simultaneous, interdependent pathways through which board attributes, firm profitability, and reporting quality interact. Structural Equation Modelling (SEM) offers a more integrated analytical approach, permitting the concurrent estimation of direct and indirect relationships (Hair et al., 2021). Although SEM has been applied in some Nigerian accounting studies, its use in jointly examining board attributes, profitability, and financial reporting quality among listed non-financial firms remains limited. This study addresses both the empirical gap surrounding geopolitical zone diversity and the methodological gap surrounding integrated SEM-based estimation of governance-reporting relationships.

A further dimension of the problem concerns the sheer breadth of board-attribute dimensions typically examined in isolation. Much of the reviewed literature isolates one or two board characteristics at a time, gender diversity in one study, independence or expertise in another, making it difficult to determine which attributes matter most once the others are held constant, and leaving regulators without a clear basis for prioritising among competing governance reforms. By estimating all five board-attribute dimensions simultaneously within a single structural model alongside profitability, this study is positioned to identify, with greater precision than prior single-attribute studies, which governance levers actually move financial reporting quality among Nigerian listed non-financial firms, and which do not.

Hypotheses

The study tests the following null hypotheses:

H_{01}: board gender diversity has no significant effect on financial reporting quality

H_{02}: board independence has no significant effect on financial reporting quality

$H_{03:}$ board financial expertise has no significant effect on financial reporting quality

$H_{04:}$ board age diversity has no significant effect on financial reporting quality

$H_{05:}$ geopolitical zone diversity has no significant effect on financial reporting quality; and

H_{06}: profitability has no significant effect on financial reporting quality of listed non-financial firms in Nigeria.

Literature Review and Theoretical Framework

Conceptual Review

Financial Reporting Quality

Financial reporting quality refers to the degree to which a company's financial statements provide accurate, reliable, and decision-useful information to stakeholders. High-quality reports are free from material misstatement or bias, reflect the firm's true financial position, and reduce information asymmetry between management and external users (Akinyemi & Asaolu, 2020). Qualitative characteristics commonly used to assess FRQ include relevance, faithful representation, comparability, verifiability, timeliness, and understandability (IASB, 2018). Empirically, FRQ is most often proxied through earnings-management measures, particularly discretionary accruals, on the premise that lower discretionary accruals signify less opportunistic manipulation of reported earnings and, by extension, higher reporting quality (Dechow et al., 1995; Kothari et al., 2005).

Board Gender Diversity

Board gender diversity refers to the representation of both men and women on corporate boards, most commonly operationalised as the proportion of female directors to total board membership (Ben, 2024). Gender-diverse boards are theorised to bring varied perspectives that improve problem-solving and enhance oversight (Adams et al., 2022; Haque & Jones, 2020), as female directors are often characterised as more meticulous and risk-averse, potentially strengthening scrutiny of management's reporting choices (García-Meca et al., 2021).

Board Independence

Board independence denotes the proportion of directors who are not part of company management and have no material financial or family ties that could compromise their objectivity (Goh et al., 2022). Independent directors are expected to provide unbiased oversight, challenge management's reporting decisions, and reduce the risk of earnings manipulation (Kim & Yoo, 2021), although their effectiveness is conditional on competence, access to information, and depth of engagement (Lai & Tam, 2023).

Board Financial Expertise

Board financial expertise captures the presence of directors with accounting, finance, or related professional qualifications (Damagum & Bajuri, 2024). Financially literate directors are better equipped to interpret complex financial statements, evaluate accounting choices, and detect potential misstatements, particularly within audit committee oversight functions (Carcello et al., 2022; Chen et al., 2022).

Board Age Diversity

Board age diversity reflects variation in the ages of board members, combining the risk-tolerance and innovation associated with younger directors with the experience and cautious judgement associated with older directors (Lai & Tam, 2023). In this study, age diversity is measured using Blau's Index of Heterogeneity across three age cohorts, consistent with Streefland (2016).

Geopolitical Zone Diversity

Geopolitical zone diversity captures the representation of directors drawn from Nigeria's six geopolitical zones on a company's board. Given Nigeria's ethnic, cultural, and regional heterogeneity, boards with broader regional representation are theorised to possess wider knowledge of local markets and stakeholder expectations, potentially improving inclusiveness and the legitimacy of governance and disclosure practices (Essien & Akpan, 2024).

Profitability

Profitability, measured by return on assets (ROA), captures how efficiently a firm converts its asset base into earnings (Akinyemi & Asaolu, 2020; Olawale & Fagbemi, 2022). In the reporting-quality literature, profitability is theorised as both a signal of managerial efficiency and a determinant of the firm's incentive and capacity to report transparently.

Empirical Review

Hassan (2013) examined monitoring characteristics and financial reporting quality among 32 Nigerian manufacturing firms using the modified Dechow-Dichev model, finding that independent directors, institutional ownership, and audit committees significantly enhanced reporting quality, although the small sample limited generalisability and the study relied solely on accrual-based measures without incorporating qualitative disclosure dimensions. Arumona et al. (2019) examined the influence of directors' financial education on firm performance in Nigeria's healthcare sector using panel data from 2011 to 2017, finding that undergraduate, postgraduate, and professional financial education were all positively and significantly associated with return on assets; while the study did not directly address financial reporting quality, it offers indirect support for the value of board financial literacy in shaping governance-related outcomes.

Aifuwa and Embele (2019), using the Generalised Linear Model on Nigerian manufacturing firms, found board expertise positively and significantly related to FRQ, while board diversity and independence were statistically insignificant, suggesting that technical competence matters more than demographic composition in curbing earnings manipulation, though the study's narrow operationalisation of diversity may not have captured more nuanced cognitive or experiential dimensions. Ogbaisi et al. (2019), examining 40 quoted Nigerian firms between 2010 and 2015 using Ordinary Least Squares regression, found board expertise positively significant while board independence, though positively signed, was statistically insignificant, indicating that structural independence without functional competence may be insufficient to enhance reporting integrity. Onatuyeh and Timothy (2019), applying the IASB qualitative-characteristics framework and the Generalised Method of Moments estimator to 14 Nigerian banks over 2013-2017, found gender diversity positively and significantly related to FRQ while independence was insignificant, illustrating that findings on gender diversity are sensitive to sector and measurement choice, although the exclusive banking-sector focus restricts external validity.

Suleiman et al. (2020), studying 13 Nigerian consumer goods firms over 2013-2018 using the Modified Jones Model, found board expertise positively and significantly associated with FRQ while independence and gender diversity were not, a sector-specific finding that nonetheless raises questions about whether diversity variables were conceptualised beyond surface-level representation. Musa et al. (2020) found board age diversity negatively associated with sustainability reporting among Nigerian industrial goods firms, while nationality and educational diversity showed no significant effect, offering a cautionary counterpoint to assumptions that all forms of board diversity uniformly improve disclosure outcomes.

Ugwoke et al. (2021), using System GMM on 83 Nigerian non-financial firms over 2010-2019, found board size and meeting frequency significantly enhanced FRQ while board duality reduced it, though the study did not examine financial expertise, age diversity, geopolitical diversity, or the direct effect of profitability, gaps the present study addresses. Ideh et al. (2021), studying 92 Nigerian firms across ten sectors between 2007 and 2018, found that once IFRS adoption and firm age were controlled for, board size and independence lost statistical significance in explaining earnings management, suggesting that regulatory compliance may outweigh board structure alone in curbing opportunistic reporting. Gbadebo et al. (2021) studied 12 Nigerian deposit money banks using panel regression with the Modified Jones Model and found board independence positively and significantly associated with financial reporting quality, reinforcing the disciplining role of independent oversight, albeit within a single, heavily regulated sector that limits generalisation to non-financial firms.

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Tan and Taufik (2022), using panel data from 377 Indonesian firms, found gender diversity and expertise diversity positively associated with improved FRQ, with firm size negatively moderating the contribution of age diversity in larger firms. Olayinka and Sanyaolu (2022), using Generalised Least Squares on 75 Nigerian non-financial firms between 2012 and 2020, found board independence and financial expertise significantly enhanced FRQ while gender diversity was insignificant, results broadly consistent with the present study's findings, though the study did not address potential endogeneity from omitted variables or reverse causality.

Rimamshung et al. (2023), examining 13 Nigerian consumer goods firms between 2016 and 2021 using discretionary accruals as the FRQ proxy, found board expertise positively significant while diversity and independence showed no significant effect, a sector-specific result consistent with the broader Nigerian pattern that technical competence, rather than structural composition, drives reporting quality. Joseph et al. (2023) found board gender diversity negatively but statistically insignificantly related to FRQ among Nigerian manufacturing firms over a twelve-year window, attributing the result to institutional and governance constraints that may limit the practical influence of female directors on board decisions. Dissanayake and Bogamuwa (2023), studying 100 Sri Lankan non-financial firms, found that board independence and size reduced financial distress while nationality diversity increased it, and that gender and education showed no significant effect; although the outcome variable in that study was financial distress rather than reporting quality directly, the pattern of significant independence effects alongside insignificant gender effects mirrors several of the Nigerian findings reviewed above and lends further support to the view that structural board attributes, rather than demographic diversity per se, are the more consistent predictors of governance-related financial outcomes across emerging-market settings.

Tawfik et al. (2023), analysing 181 firms across the Gulf Cooperation Council between 2010 and 2016 using fixed- and random-effects panel models, found board expertise, age, and independence improved FRQ, while the presence of family and royal-family board chairs exerted a negative effect, illustrating how ownership and cultural structures can condition the governance-reporting relationship in ways not directly comparable to the Nigerian institutional context. Bello et al. (2024), studying ten Nigerian oil and gas firms over 2012-2021, found a significant negative relationship between board independence and FRQ, illustrating considerable sectoral heterogeneity in the direction of the independence-FRQ relationship within Nigeria itself.

Danjuma et al. (2024), using 53 Nigerian non-financial firms listed over a ten-year period, found board expertise and institutional ownership positively significant while independence was negatively related to FRQ, again underscoring inconsistency across Nigerian studies and the need for an integrated, multi-dimensional model such as the one adopted here. Wang (2024), analysing 18,762 firm-year observations of Chinese A-share companies, found board independence enhanced accrual quality and earnings persistence, particularly in state-owned enterprises, with the effect strengthened by substantive director participation rather than mere meeting attendance. Subhani et al. (2024), applying critical-mass theory to Pakistani listed firms between 2006 and 2021, found FRQ improved with gender diversity once female representation exceeded roughly 35 per cent, a threshold effect not directly tested in prior Nigerian studies.

Oladapo et al. (2024), studying 20 Nigerian manufacturing firms over 2010-2021 using the Modified Jones Model and random-effects regression, found board size and diversity positively associated with FRQ while independence and expertise were statistically insignificant, a result that diverges from the present study and several others reviewed here, reinforcing the sensitivity of governance-reporting findings to sample, sector, and estimation technique. Collectively, the empirical evidence on board attributes and financial reporting quality is decidedly mixed and highly context-dependent, and few studies simultaneously model the direct effect of profitability on reporting quality alongside multiple board-attribute dimensions, including geopolitical zone diversity, within a single structural framework, a gap this study fills using Nigerian non-financial firm data.

Danjuma et al. (2024) examined corporate governance and financial disclosure quality among Nigerian non-financial firms and reported that governance mechanisms, including board composition, significantly influenced disclosure quality, while cautioning that reverse causality between governance strength and firm reporting culture could not be fully ruled out in a purely cross-sectional design. Adamu et al. (2024), studying listed oil and gas companies in Nigeria, found that board independence significantly affected financial reporting quality when moderated by firm size, reinforcing the sector-conditional nature of the independence-FRQ relationship already evident in Bello et al. (2024) and consistent with the present study's finding that independence operates as a significant, though not always quality-enhancing, direct governance channel.

Akande (2024), examining 36 Nigerian financial services firms between 2008 and 2022 using Two-Stage Least Squares to address endogeneity, found that female financial experts and female CEOs positively influenced earnings quality, and that gender diversity improved the reliability of earnings reporting when combined with financial expertise, a nuanced result suggesting that the interaction between gender and expertise, rather than either attribute alone, may be the more powerful governance lever, an interaction not directly tested in the present study but flagged here as a direction for future research.

Theoretical Framework

Agency Theory

Agency Theory, propounded by Jensen and Meckling (1976), addresses the principal-agent relationship within organisations, focusing on the conflicts of interest that arise when shareholders delegate decision-making authority to management and the board. The theory posits that agents may prioritise their own interests over those of principals, generating agency costs such as managerial opportunism and moral hazard. Within this framework, board attributes, particularly independence and financial expertise, are viewed as mechanisms for mitigating agency problems by enhancing monitoring capacity and fostering greater accountability in the preparation of financial statements. Independent and financially literate board members are, in theory, better positioned to monitor management's reporting practices, challenge questionable accounting choices, and safeguard shareholder interests, thereby reducing information asymmetry and constraining opportunistic earnings management (Jensen & Meckling, 1976; Fama & Jensen, 1983).

Stewardship Theory

Stewardship Theory, introduced by Donaldson and Davis (1991), provides an alternative perspective by emphasising the intrinsic motivation of directors to act as stewards of the organisation's resources and interests rather than as self-interested agents. The theory suggests that diverse boards foster collaborative environments in which directors are motivated to safeguard the firm's long-term interests, leading to more rigorous oversight of financial reporting processes and stronger adherence to ethical standards. Under this lens, board diversity in gender, age, and regional representation is theorised to build a shared sense of collective responsibility for financial integrity that complements, rather than substitutes for, formal monitoring mechanisms, ultimately reinforcing stakeholder trust and the credibility of financial disclosures.

Resource Dependence Theory

Resource Dependence Theory, formulated by Pfeffer and Salancik (1978), posits that firms depend on external resources for survival and growth, and that the board of directors plays a central role in securing these resources. Directors bring valuable skills, networks, legitimacy, and access to critical information that enhance organisational performance and governance capacity; board expertise, independence, and diversity are treated as strategic assets that help firms manage environmental uncertainty (Hillman et al., 2000). Applied to financial reporting quality, the theory suggests that board members with financial expertise or broad geopolitical representation extend the range of knowledge, networks, and legitimacy available to a firm's governance structure, thereby strengthening both the technical capacity to prepare high-quality financial statements and the external credibility of the firm's disclosures. Among the three theories, Resource Dependence Theory offers the most direct explanation for the study's central finding that financial expertise and geopolitical zone diversity, both of which expand the strategic knowledge and legitimacy resources available to the board, are the strongest predictors of financial reporting quality.

Methodology

The study adopts a positivist philosophical orientation, consistent with quantitative research that treats reality as external, measurable, and independent of the researcher's perception (Creswell & Creswell, 2018). Board attributes, profitability, and financial reporting quality are objective, quantifiable constructs that can be derived from audited financial statements and annual reports, aligning with positivism's insistence on measurable, verifiable evidence rather than subjective interpretation. The study specifically employs a correlational research design, appropriate for examining the degree and direction of association among board attributes, profitability, and financial reporting quality using secondary panel data, without manipulating any of the variables involved (Creswell, 2014). The population comprises the 106 non-financial firms listed on the Nigerian Exchange Group (NGX) as of 31 December 2024. A two-stage inclusion filter, retaining firms continuously listed since before 2012 with complete annual reports throughout the review period, reduced the population to a final sample of 74 firms. A two-stage proportionate-stratified and simple-random sampling procedure was applied across the twelve non-financial subsectors to preserve sectoral representativeness, yielding an unbalanced panel of 962 firm-year observations spanning 2012 to 2024. The base year 2012 corresponds to the mandatory adoption of IFRS by Nigerian listed companies.

A two-stage sampling technique was adopted to enhance representativeness and reduce sampling bias. In the first stage, proportionate stratified sampling allocated the 74-firm sample across the twelve subsectors of the non-financial sector in proportion to each subsector's share of the population, reflecting the heterogeneity of board attributes, profitability, and reporting practices across subsectors. In the second stage, simple random sampling was applied within each subsector to select the constituent firms, ensuring every firm had an equal probability of inclusion. Table 4 shows the resulting sample distribution by sector.

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Table 1: Sample Distribution by Sector

Sector	Population	Sample	% of Sample
Agriculture	5	5	6.75
Conglomerates	6	6	8.11
Construction & Real Estate	10	4	5.41
Consumer Goods	20	16	21.62
Healthcare	7	4	5.41
ICT	8	5	6.75
Industrial Goods	13	10	13.51
Investment	1	0	0.00
Natural Resources	4	4	5.41
Oil and Gas	9	4	5.41
Services	21	16	21.62
Utility	2	0	0.00
Total	106	74	100.00

Source: Author's compilation (2026).

Data Source and Variable Measurement

Data were extracted from the audited annual reports and accounts of sampled firms, supplemented by industry and listing data from the NGX. Financial reporting quality, the dependent variable, is proxied by the absolute value of discretionary accruals estimated through the performance-matched Modified Jones Model of Kothari et al. (2005), in which total accruals (net income less cash flow from operations) are regressed on the inverse of lagged total assets, the change in revenue net of the change in receivables, gross property, plant and equipment, and return on assets; the residual from this regression represents discretionary accruals, with lower absolute values denoting higher reporting quality.

Board gender diversity is measured as the proportion of female directors to total board membership; board independence as the ratio of independent non-executive directors to total board size; and board financial expertise as the proportion of directors holding accounting or finance qualifications. Board age diversity and geopolitical zone diversity are both measured using Blau's Index of Heterogeneity, $D = 1 - \Sigma(p_i^2)$, applied respectively to three age cohorts (21-45, 46-60, and above 60 years) and to Nigeria's six geopolitical zones. Profitability is measured as net income divided by total assets (ROA). Firm size (log of total assets) and firm age (years since listing) serve as control variables.

Table 2: Summary of Variable Definitions and Measurement

Variable	Type	Measurement
Financial Reporting Quality (FRQ)	Dependent	Absolute discretionary accruals (Modified Jones Model, Kothari et al., 2005)
Board Gender Diversity (BGD)	Independent	Proportion of female directors to total board members Danjuma et al. (2024)
Board Independence (BIN)	Independent	Ratio of independent non-executive directors to total board size Adamu et al. (2024)
Board Financial Expertise (BFE)	Independent	Proportion of directors with finance/accounting qualifications Bello et al. (2024)
Board Age Diversity (AGD)	Independent	Blau's Index of Heterogeneity across three age cohorts Oladapo (2024)
Geopolitical Zone Diversity (GPZ)	Independent	Blau's Index of Heterogeneity across six geopolitical zones Rimamshung et al. (2023)
Profitability (ROA)	Independent	Net income divided by total assets Tan and Taufik (2022)
Firm Size (FS)	Control	Natural logarithm of total assets Adamu et al. (2024); Bello et al. (2024)
Firm Age (FA)	Control	Number of years since stock exchange listing Adamu et al. (2024)

Source: Author's compilation (2026).

Model Specification

Consistent with the study's objectives, the direct-effects model for financial reporting quality is specified as:

$FRQ = \alpha 0 + \alpha 1BGD + \alpha 2BIN + \alpha 3BFE + \alpha 4AGD + \alpha 5GPZ + \alpha 6ROA + \alpha 7FS + \alpha 8FA + \varepsilon$

where FRQ is financial reporting quality (discretionary accruals), BGD is board gender diversity, BIN is board independence, BFE is board financial expertise, AGD is board age diversity, GPZ is geopolitical zone diversity, ROA is return on assets, FS is firm size, FA is firm age, and ε is the error term. The model was estimated within a Structural Equation Modelling (ML) framework, which permits simultaneous estimation of this equation alongside an auxiliary equation predicting ROA from the same board-attribute set, enabling supplementary MEDSEM-based mediation testing of the indirect paths through which board attributes may influence FRQ via profitability.

Estimation Technique and Diagnostics

Descriptive statistics, Spearman correlation, Shapiro-Wilk normality tests, Variance Inflation Factor (VIF) multicollinearity diagnostics, Breusch-Pagan/Cook-Weisberg heteroskedasticity tests, and Ramsey RESET specification tests were conducted prior to estimation to validate the suitability of the data. The structural model was estimated using Maximum Likelihood in STATA 15, with standard errors robust to the non-normality detected in the underlying variables; bootstrapped and Sobel-test indirect effects were computed for the mediation analysis.

Results and Discussion

Descriptive Statistics

Table 1 presents the descriptive statistics for the 962 firm-year observations. Financial reporting quality (FRQ) recorded a mean of 0.0131 and a standard deviation of 0.4549, indicating a marginally positive average level of discretionary accruals but with wide cross-firm variation, ranging from -2.8375 to 4.3083. Board gender diversity averaged 15.22 per cent, board independence 55.49 per cent, board financial expertise 15.31 per cent, and geopolitical zone diversity 31.35 per cent, while age diversity averaged 0.6035 with comparatively low dispersion. Profitability (ROA) averaged 6.94 per cent with a standard deviation of 0.1782, reflecting the volatile macroeconomic environment confronting Nigerian non-financial firms.

Table 3: Descriptive Statistics of Study Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
FRQ	962	0.0131	0.4549	-2.8375	4.3083
BGD	962	0.1522	0.1561	0.0000	0.8000
BIN	962	0.5549	0.1713	0.1000	0.9167
BFE	962	0.1531	0.1327	0.0000	0.6250
AGD	962	0.6035	0.0633	0.2066	0.8332
GPZ	962	0.3135	0.1905	0.0500	0.8844
ROA	962	0.0694	0.1782	-0.9941	0.9420
FS	962	7.0661	0.8564	4.7581	9.7156
FA	962	30.37	16.28	1.00	93.00

Source: STATA 15 Output (2026).

Financial reporting quality shows considerable cross-firm variation, with the near-zero mean masking a wide range from -2.8375 to 4.3083. This variability reflects the heterogeneous governance environment characterising Nigerian listed firms, where firms differ widely in board composition, institutional quality, and regulatory compliance culture; from a market perspective, it implies that capital-market participants cannot uniformly rely on financial statements as a basis for investment decisions, underscoring the need for stronger mandatory disclosure standards and enforcement by the FRCN and SEC. Board gender diversity's mean of 15.22 per cent is consistent with the persistent gender gap in boardroom representation across sub-Saharan Africa, ranging from entirely male boards to boards with up to 80 per cent female representation, highlighting the uneven application of gender diversity practices in the absence of mandatory quotas in Nigeria's governance code.

Board independence, averaging 55.49 per cent, is broadly consistent with the minimum threshold recommended by the Nigerian Code of Corporate Governance (NCCG, 2018), though board financial expertise, averaging only 15.31 per cent, suggests a generally low presence of financially qualified directors and, from a Resource Dependence Theory perspective, a meaningful gap in boards' technical capacity to oversee financial reporting processes. Age diversity is comparatively high and uniform (mean 0.6035, standard deviation 0.0633), suggesting that Nigerian firms converge around similar age-diversity practices, while geopolitical zone diversity (mean 0.3135) indicates that boards are only moderately diverse in regional representation, leaving room for the more geopolitically inclusive nomination policies recommended later in this article. Profitability averaged 6.94 per cent, reflecting the challenging macroeconomic environment, including inflation, exchange-rate instability, and infrastructure deficiencies, confronting Nigerian non-financial firms over the review period.

Correlation Analysis

Table 4: Correlation Matrix of Study Variables

Variables	FRQ	BGD	BIN	BFE	AGD	GPZ	ROA
FRQ	1.000						
BGD	0.051	1.000					
BIN	-0.011	0.292	1.000				
BFE	0.042	0.386	0.144	1.000			
AGD	0.039	-0.107	-0.027	-0.110	1.000		
GPZ	0.011	0.117	-0.036	0.069	0.079	1.000	
ROA	-0.007	0.001	0.040	-0.013	0.134	-0.022	1.000

Source: STATA 15 Output (2026).

Bivariate correlations between FRQ and the explanatory variables were generally weak (ranging from -0.011 to 0.051), consistent with the expectation that governance-reporting relationships are better captured through multivariate estimation than simple pairwise association. Among the board-attribute variables, the highest inter-correlation was between BGD and BFE ($r = 0.386$), well below the 0.80 threshold indicative of problematic multicollinearity, providing preliminary assurance that the regression estimates are not distorted by linear dependence among the regressors.

Pre-Estimation Diagnostic Tests

Shapiro-Wilk tests confirmed significant departures from normality across all variables ($p < 0.01$), which is characteristic of firm-level panel data in emerging markets and was addressed through Spearman correlation, robust standard errors, and the use of SEM, which tolerates moderate normality violations and derives consistency from exogeneity assumptions rather than from the normality of the regressors themselves; the large sample size ($N = 962$) further invokes the central limit theorem to preserve the asymptotic validity of the estimates.

Table 5: Multicollinearity (VIF) and Heteroskedasticity Diagnostics

Variable / Model	Statistic	Value	Decision
BGD (VIF)	VIF	1.37	No multicollinearity
BFE (VIF)	VIF	1.22	No multicollinearity
FS (VIF)	VIF	1.11	No multicollinearity
BIN (VIF)	VIF	1.09	No multicollinearity
GPZ (VIF)	VIF	1.05	No multicollinearity
AGD (VIF)	VIF	1.05	No multicollinearity
Mean VIF	VIF	1.13	No multicollinearity
FRQ Model (Breusch-Pagan)	$Chi^2(1) = 0.46$, $p = 0.496$	-	No heteroskedasticity

Source: STATA 15 Output (2026).

VIF diagnostics returned a mean VIF of 1.13, well below the conventional threshold of 10 and the stricter threshold of 5, confirming the absence of problematic multicollinearity and validating the reliability of the coefficient estimates. The Breusch-Pagan/Cook-Weisberg test failed to reject homoskedasticity for the FRQ model ($\chi^2 = 0.46$, $p = 0.4964$), while the Ramsey RESET test indicated some functional-form concerns in the linear specification (_hat coefficient significant at $p = 0.007$), reinforcing the appropriateness of the non-linear, multi-equation SEM approach adopted for the full model.

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Structural Equation Model Results

Table 6 presents the SEM results for the financial reporting quality equation, estimated via Maximum Likelihood on 962 observations (log likelihood = -2472.4119).

Table 6: SEM Results — Determinants of Financial Reporting Quality

Predictor	Coefficient	Std. Err.	z-stat	p-value
Board Gender Diversity (BGD)	-0.0295	0.1083	-0.27	0.786
Board Independence (BIN)	0.2797	0.0880	3.18	0.001
Board Financial Expertise (BFE)	6.9404	0.1201	57.77	0.000
Board Age Diversity (AGD)	0.1524	0.2347	0.65	0.516
Geopolitical Zone Diversity (GPZ)	-0.1995	0.0781	-2.55	0.011
Return on Assets (ROA)	-0.1932	0.0830	-2.33	0.020
Firm Size (FS)	0.0332	0.0180	1.84	0.066
Firm Age (FA)	0.0034	0.0009	3.77	0.000

Source: STATA 15 SEM Output (2026). Dependent variable: FRQ (discretionary accruals).

Test of Hypotheses

Table 7: Summary of Hypotheses Testing

Hypothesis	Coefficient	p-value	Decision
H01a: BGD → FRQ	-0.0295	0.786	Fail to reject H0
H01b: BIN → FRQ	0.2797	0.001	Reject H0
H01c: BFE → FRQ	6.9404	0.000	Reject H0
H01d: AGD → FRQ	0.1524	0.516	Fail to reject H0
H01e: GPZ → FRQ	-0.1995	0.011	Reject H0
H02: ROA → FRQ	-0.1932	0.020	Reject H0

Source: Author's compilation from STATA 15 Output (2026).

H01 is not rejected: board gender diversity has no statistically significant direct effect on financial reporting quality (p = 0.786). H02 is rejected: board independence has a significant positive coefficient on discretionary accruals (p = 0.001), indicating that higher board independence is associated with lower reporting quality in this sample, a result that may reflect independent directors' limited firm-specific information or engagement rather than a failure of independence per se. H03 is strongly rejected: board financial expertise is the dominant predictor in the model (coefficient = 6.9404, p = 0.000), consistent with Aifuwa and Embele (2019) and Ogbaisi et al. (2019), underscoring the primacy of technical competence over demographic composition in shaping reporting outcomes. H04 is not rejected: board age diversity has no significant direct effect on FRQ. H05 is rejected: geopolitical zone diversity significantly reduces discretionary accruals (p = 0.011), supporting its introduction as a novel and empirically relevant governance construct in the Nigerian context. H06 is rejected: profitability significantly and negatively predicts discretionary accruals (p = 0.020), confirming that more profitable firms report at higher quality, consistent with Barth and Landsman (2021).

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Discussion of Findings

The finding that board gender diversity does not significantly affect financial reporting quality is consistent with Nalikka (2009), who found no significant relationship between female board representation and voluntary disclosure among Finnish firms, and with Herli, Tjahjadi and Hafidhah (2021) in the Indonesian context, but diverges from García-Meca et al. (2021) and Srinidhi et al. (2011), who documented significant positive effects in developed economies. The divergence likely reflects institutional context: in developed economies, female directors typically operate within stronger governance systems and enjoy greater board influence, whereas in Nigeria, female representation remains comparatively low (15.22 per cent on average in this sample) and institutional support for gender-inclusive governance is still evolving, such that the governance benefits associated with gender diversity may not yet be strong enough to exert a measurable influence on reporting quality. From an Agency Theory perspective, this suggests that female directors may currently have limited influence over financial reporting decisions in Nigerian listed non-financial firms, and that increasing representation alone, absent greater empowerment and participation in governance processes, may be insufficient to move reporting outcomes.

The significant positive effect of board independence on discretionary accruals, indicating a negative relationship with reporting quality, differs from Kim and Yoo (2021) and Goh et al. (2022), who found board independence reduced earnings management in Asian markets. The difference may reflect variation in institutional quality, board effectiveness, and regulatory enforcement across jurisdictions. While independent directors are theoretically positioned to strengthen monitoring, their practical effectiveness depends on competence, genuine independence in practice, and access to firm-specific information; the result implies that board independence remains an important governance attribute in Nigeria, but that independence alone, without sufficient expertise, information access, and authority, may not translate into improved reporting outcomes.

The dominant, highly significant effect of board financial expertise supports DeFond, Hann and Hu (2005) and Krishnan and Visvanathan (2008), who found financially knowledgeable directors enhance accounting oversight, and García-Sánchez et al. (2021), who found boards with greater financial expertise demonstrated stronger reporting capabilities. This is consistent with Resource Dependence Theory, which views directors as providers of valuable technical knowledge; financial experts possess the skills necessary to understand complex accounting standards, evaluate financial statements, and monitor management effectively, positioning financially knowledgeable boards to better oversee financial reporting processes and ensure compliance with accounting standards. The result reinforces the importance of appointing directors with accounting and financial expertise to corporate boards and audit committees, though the positive sign of the coefficient on discretionary accruals also raises the possibility that greater financial acumen provides directors with more sophisticated tools for exercising accounting discretion, an issue that warrants further qualitative investigation.

Board age diversity's lack of significant direct effect on financial reporting quality disagrees with Chen et al. (2022) and Adams et al. (2022), who reported that age-diverse boards improved governance quality and reporting in developed economies, suggesting that differences in directors' ages alone may not necessarily translate into better reporting practices within Nigerian listed non-financial firms, potentially because age diversity's influence operates indirectly through firm performance rather than through direct governance channels.

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The significant favourable effect of geopolitical zone diversity on financial reporting quality represents an important contribution to the Nigerian corporate governance literature, as this dimension of diversity remains relatively unexplored despite Nigeria's multicultural, multi-regional corporate environment. The finding suggests that greater regional representation on corporate boards improves financial reporting quality by reducing discretionary accounting practices, consistent with Resource Dependence Theory's argument that directors from diverse geographical backgrounds provide broader networks, knowledge, and perspectives that enhance organisational governance, and with Stakeholder Theory's suggestion that geographically diverse boards are more responsive to the interests of multiple stakeholder groups, promoting greater transparency and accountability in financial reporting.

Finally, the significant negative effect of profitability (return on assets) on discretionary accruals indicates that more profitable firms exhibit lower levels of discretionary accruals, implying higher-quality financial reporting. This is consistent with García-Sánchez et al. (2021) and Barth and Landsman (2021), who argue that financially successful firms possess fewer incentives to manipulate earnings because favourable performance already signals positive information to investors and other stakeholders, and are generally better able to invest in robust internal controls, qualified accounting personnel, and sophisticated reporting systems that enhance reporting credibility. This finding also supports Agency Theory's proposition that managers of highly profitable firms face reduced pressure to manipulate accounting numbers to satisfy shareholders or creditors, such that stronger financial performance contributes independently to greater transparency and improved financial reporting quality among listed non-financial firms in Nigeria.

Taken together, these results carry clear policy implications. Because the strongest and most reliable predictors of financial reporting quality, board financial expertise, geopolitical zone diversity, and profitability, operate through direct governance and performance channels rather than through weak or absent mediation pathways, regulatory interventions are likely to be most effective when targeted directly at board composition standards and firm-level performance monitoring, rather than at indirect, profitability-oriented governance reforms alone. This distinction, made possible by the integrated SEM framework employed in this study, provides Nigerian regulators with a more precise evidentiary basis than prior single-equation regression studies for prioritising among competing governance reform proposals.

Mediating Role of Profitability

Supplementary MEDSEM mediation analysis indicates that profitability partially transmits the influence of board gender diversity and geopolitical zone diversity on financial reporting quality (indirect effects of 0.016 and 0.019 respectively), although both indirect paths are only marginally significant at the 10 per cent level and fall short of conventional 5 per cent significance. No mediation was detected for board independence or board financial expertise, both of which influence financial reporting quality directly through governance and monitoring channels rather than through profitability. These results suggest that, for the strongest governance predictors identified in this study, board independence and financial expertise, profitability is not the operative transmission mechanism; their influence on reporting quality is direct and should be targeted directly by governance reforms rather than indirectly through performance-oriented interventions.

This pattern of largely direct, rather than profitability-mediated, governance effects is itself an important empirical finding. It indicates that, within the Nigerian non-financial sector, the dominant channel through which board composition shapes the credibility of financial statements is direct board oversight and technical competence rather than the indirect route of improved firm performance feeding through to better reporting incentives. For policymakers, this distinction matters because it clarifies that interventions aimed solely at improving firm profitability, however valuable in their own right, are unlikely to be a substitute for direct governance reform focused on board composition, competence, and regional inclusiveness.

Conclusion and Recommendations

The study concludes that board financial expertise is the most influential governance attribute shaping financial reporting quality among listed non-financial firms in Nigeria, followed by geopolitical zone diversity and board independence, both of which exert statistically significant direct effects. Board gender diversity and board age diversity, by contrast, show no significant direct influence on reporting quality within this sample. Profitability significantly improves financial reporting quality and partially, though weakly, mediates the effects of gender diversity and geopolitical diversity, but does not mediate the effects of the two strongest governance predictors, independence and financial expertise. These findings establish that, in the Nigerian non-financial sector, financial reporting quality is shaped predominantly through direct governance and monitoring channels rather than through the profitability pathway, and that geopolitical zone diversity constitutes a novel and empirically significant governance construct meriting further attention in African corporate governance research.

More specifically, the evidence supports the following conclusions. First, the existing level of female board representation in Nigeria is not yet sufficient to exert a measurable direct influence on financial reporting practices, suggesting that gender diversity's governance benefits, where they exist, may operate through channels other than reporting quality. Second, board independence exerts a significant effect on financial reporting quality, but the direction observed in this sample indicates that independence must be accompanied by genuine competence and engagement to translate into improved, rather than diminished, reporting outcomes. Third, board financial expertise is confirmed as one of the most important governance mechanisms available to Nigerian non-financial firms, with directly observable, statistically dominant effects on reporting quality. Fourth, board age diversity shows no significant direct relationship with financial reporting quality, indicating that its governance value, if any, is transmitted through other organisational channels. Fifth, geopolitical zone diversity significantly improves financial reporting quality, establishing regional board representation as a substantive and previously under-examined governance lever in the Nigerian context. Sixth, firm profitability independently and significantly enhances financial reporting quality, consistent with the proposition that financially successful firms face fewer incentives to manipulate earnings and possess greater capacity to invest in robust reporting infrastructure.

From a theoretical standpoint, the pattern of results lends the strongest support to Resource Dependence Theory: the two governance attributes with the clearest, most consistent, direct positive effects on reporting quality, board financial expertise and geopolitical zone diversity, are precisely those that Resource Dependence Theory predicts should matter most, because they expand the strategic knowledge, networks, and legitimacy resources available to the board, rather than operating purely as monitoring or stewardship mechanisms. Agency Theory's monitoring logic is only partially supported, given that board independence, while statistically significant, moved discretionary accruals in the direction associated with lower rather than higher reporting quality, suggesting that structural independence without accompanying competence and engagement does not straightforwardly deliver the disciplining effect the theory predicts. Stewardship Theory finds more limited direct support in this study, since neither board gender diversity nor age diversity, the attributes most closely associated with collaborative, ethically motivated board behaviour in the theoretical literature, exerted a statistically significant direct effect on reporting quality.

Recommendations

Based on the findings, the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) should tighten minimum financial-expertise requirements for board composition, extending beyond audit committees to the full board, since financial expertise emerged as the strongest single determinant of reporting quality. Regulators and corporate boards should also invest in strengthening the competence, industry knowledge, and information access of independent directors, since structural independence alone was associated with higher, not lower, discretionary accruals in this sample, suggesting that independence must be paired with genuine engagement to yield its intended governance benefits. Geopolitical zone diversity should be formally considered as a governance criterion in board nomination policies, given its significant favourable effect on reporting quality and its currently under-utilised status in Nigerian governance codes. Finally, because profitability significantly improves reporting quality, boards and management should pursue sound strategic and operational practices that enhance sustainable profitability as a complementary, though secondary, lever for reporting integrity.

The composition of the board and its nomination committee should be balanced so that each governance attribute plays its most effective role: financial expertise, geopolitical representation, and genuinely engaged independence should be prioritised as the direct levers of financial reporting quality identified in this study, while gender and age diversity, though not directly significant here, should continue to be pursued for their documented contribution to broader governance legitimacy and stakeholder inclusiveness. The Financial Reporting Council of Nigeria and Securities and Exchange Commission should treat direct governance mechanisms, rather than profitability, as their primary policy lever for improving reporting quality, since profitability was found to mediate only two of the five board-attribute relationships examined, and even then only weakly; sustained improvement in financial reporting quality is more likely to come from strengthening board effectiveness, financial expertise, and diversity directly than from policies aimed indirectly at firm performance.

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