



Effect of risk disclosure on financial reporting quality of listed industrial goods companies in Nigeria

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Abstract

This study examines the effect of risk disclosure on financial reporting quality of quoted industrial goods companies in Nigeria. The study adopts an ex-post facto research design and utilizes panel data obtained from the annual reports of selected quoted industrial goods firms in Nigeria over the study period. The results show that operational risk has a negative and significant effect on financial reporting quality of quoted industrial goods companies in Nigeria. Liquidity risk also has a negative and significant effect on financial reporting quality of quoted industrial goods companies in Nigeria. Credit risk has a positive and significant effect on financial reporting quality of quoted industrial goods companies in Nigeria. While market risk is negative but insignificant effect on financial reporting quality of quoted industrial goods companies in Nigeria. The study concludes that operational and liquidity risks are the most critical determinants of financial reporting quality, as inefficiencies in internal processes and constraints on resources significantly affect transparency and reliability. Credit risk can serve as a motivator for firms to enhance disclosure practices and maintain investor and creditor confidence, whereas market risk has limited direct influence on reporting quality. Based on these conclusions, it is recommended that industrial goods companies strengthen operational risk management through robust internal controls, process monitoring, and regular audits. Effective liquidity management strategies, including cash flow forecasting and short-term financing planning, should be implemented to minimize reporting lapses.

Keywords: Financial Reporting Quality, Credit Risk, Market Risk, Operational Risk, Liquidity Risk.

Introduction

The quality of financial reporting and the extent of risk disclosure have become critical factors in promoting transparency, investor confidence, and effective corporate governance in Nigeria's capital markets. Since the mandatory adoption of International Financial Reporting Standards (IFRS) for all listed companies in 2012, compliance and reporting quality have



generally improved across non-financial sectors in Nigeria (Lawal, et al., 2022). However, this improvement has not been uniform. Studies on listed industrial goods companies a sector comprising about 13 firms listed on the Nigerian Exchange Group (NGX) reveal significant variations in the comprehensiveness, reliability, and timeliness of financial reports and accompanying disclosures (Raji & Dagunduro, 2024; Suleiman & Usman, 2023). For example, while audit committee expertise and institutional ownership have been shown to positively influence financial reporting disclosures, other governance characteristics such as board size and audit tenure negatively affect reporting quality, suggesting gaps in how firms implement IFRS-based disclosures (Suleiman & Usman, 2023).

Even where firms supply annual reports with extensive financial data, the depth of risk disclosure especially regarding financial and operational risk exposures varies widely across companies. Some firms provide detailed notes and narrative analyses of risk, while others simply offer generic statements that are difficult for stakeholders to interpret, thereby creating information asymmetry between corporate management and external investors (Upaa & Iorlaha, 2023). Research on sustainability and ESG-related disclosures in Nigeria's industrial firms similarly shows that more comprehensive disclosure practices help reduce information asymmetry, underscoring how greater transparency in reporting is linked to improved market communication (Upaa & Iorlaha, 2023).

This inconsistency in risk disclosure is especially concerning given that industrial goods companies operate in a highly volatile and capital-intensive environment. These firms face substantial risks, including exchange rate volatility, inflationary pressures, supply chain disruptions, and energy cost fluctuations, all of which can materially affect future cash flows and financial performance (Olanrewaju & Aladejana, 2021). When risk disclosures are sparse, ambiguous, or poorly quantified, investors find it difficult to assess how such exposures might influence future earnings, debt obligations, and firm valuation. This limits investors' ability to make fully informed decisions and may result in mispricing of securities or capital being allocated inefficiently outcomes that weaken confidence in Nigeria's capital markets (Agbo, 2020).

In addition to variations in disclosure practice, existing research indicates a lack of sector-specific empirical studies on how risk reporting affects the quality of financial statements in the industrial goods segment. Most extant studies on financial reporting quality



and corporate governance in Nigeria focus broadly on non-financial firms or examine manufacturing and service firms as a group (Adeseye & Ogundele, 2022; Okolie et al., 2024). Few investigations have isolated risk disclosure practices among industrial goods companies specifically, creating a gap in understanding how industry-specific operational risks and governance structures shape reporting quality in this crucial sector (Adeyemi & Fagbemi, 2019; Onyeizugbe & Obigbemi, 2022).

Further complicating this picture is evidence that stakeholders, including investors and regulators, are increasingly demanding more transparent reporting that incorporates not only historical financial performance but also meaningful discussion of forward-looking risks, governance practices, and sustainability concerns. Studies indicate that high financial reporting quality measured by disclosure completeness and reporting timeliness is positively associated with market value and investor confidence in listed industrial goods firms (Okolie et al., 2024). Yet the persistence of late reporting, incomplete notes, and inconsistent risk narratives suggests that some firms have yet to fully leverage IFRS frameworks to enhance reporting transparency.

Given the strategic role that industrial goods companies play in Nigeria's economy contributing to manufacturing output, employment, and capital market activity and the complex risk environments in which they operate, there is a pressing need to investigate how current risk disclosure practices influence the quality of financial reporting. Therefore, this study seeks to address the gap by examining the extent and impact of risk disclosure on the financial reporting quality of listed industrial goods companies in Nigeria.

Statement of Hypothesis

H₀₁: Credit risk disclosure has no significant impact on corporate financial reporting quality of listed industrial goods companies in Nigeria.

H₀₂: Market risk disclosure has no significant influence on corporate financial reporting quality of listed industrial goods companies in Nigeria.

H₀₃: Operational risk disclosure has no significant effect on corporate financial reporting quality of listed industrial goods companies in Nigeria.

H₀₄: Liquidity risk disclosure has no significant effect on corporate financial reporting quality of listed industrial goods companies in Nigeria



Literature Review

Concept of Financial Reporting Quality

Financial Reporting Quality (FRQ) is a widely studied concept in accounting and finance research, yet it is interpreted and measured in multiple ways depending on the perspective of the scholar. Dechow, Ge, and Schrand (2010) define financial reporting quality as the accuracy with which reported financial information reflects a firm's underlying economic performance and cash flows. According to them, high-quality reports provide decision-useful information that is both relevant and reliable, while being free from material misstatements. This perspective emphasizes the need for financial statements to represent economic reality faithfully, thereby enabling stakeholders to evaluate a company's performance and financial position accurately.

Empirical research further operationalizes FRQ by considering characteristics such as earnings persistence, predictability, and smoothness, as noted by Francis et al. (2005). According to this view, high-quality financial reports are less likely to contain discretionary accounting adjustments or transitory items, which can obscure the true financial performance of the firm. Across these perspectives, common themes emerge: financial reporting quality requires truthful representation of economic reality, decision-usefulness for stakeholders, transparency and reliability of information, predictive value for future performance, and freedom from manipulation or bias.

Concept of Risk Disclosure

Risk disclosure refers to the practice of communicating information about the uncertainties, threats, or potential adverse events that could affect a firm's financial performance, operations, or strategic objectives. According to Linsley and Shrivies (2006), risk disclosure is a critical component of corporate reporting, encompassing both the identification of risks and the methods employed to manage or mitigate them. It provides stakeholders with insights into a firm's exposure to financial, operational, regulatory, and market risks, thereby enhancing transparency and enabling more informed decision-making. Similarly, Adams defined (1998) define risk disclosure as the voluntary or mandatory communication of information about the firm's risk environment and governance practices to external stakeholders, highlighting the firm's awareness of potential threats and its strategies for risk management. Elzahar and Hussainey (2012) conceptualize risk disclosure as the provision of narrative information in



annual reports that explains the nature, sources, and potential impact of risks facing an organisation.

Credit Risk Disclosure

Credit risk disclosure refers to the communication of information by firms regarding the potential losses that may arise from the inability of counterparties or borrowers to meet their financial obligations. It is an important subset of risk disclosure, particularly for financial institutions and firms with significant trade receivables or lending activities, as it directly affects stakeholders' assessment of a firm's financial stability and creditworthiness. According to Bischof, Kaserer, and Schmid (2014), credit risk disclosure involves the provision of both qualitative and quantitative information regarding the likelihood of default by debtors and the firm's strategies for managing exposure to such defaults.

Market Risk Disclosure

According to IFRS 7, market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Transparent disclosures help reduce information asymmetry between management and external stakeholders, thereby fostering investor confidence and reducing the cost of capital (Healy & Palepu, 2020). Detailed market risk allows stakeholders to assess the adequacy of a company's risk management strategies, including the use of hedging, diversification, and other risk mitigation techniques (Hassan & Marston, 2019).

Operational Risk Disclosure

Operational risk refers to the potential for loss resulting from inadequate or failed internal processes, people, systems, or external events. It holds management accountable for managing these risks effectively and signals to investors that the company is proactive in addressing operational challenges (Wang & Gao, 2020).

Liquidity Risk Disclosure

Liquidity risk refers to the risk that an entity may encounter difficulties in meeting its financial obligations as they fall due. Liquidity risk poses challenges to organizations' ability to fund their operations, make timely payments, and take advantage of investment opportunities. Inadequate liquidity management can also harm an organization's reputation, undermine investor trust, and lead to systemic concerns in the financial system (Umo, 2023).



Empirical Review

Lee and Martin (2023) examined the effect of credit risk disclosure on financial reporting quality in the telecommunications industry, focusing on whether better transparency influences market valuation from 2018 to 2023. Regression analysis was used to evaluate the impact of credit risk disclosures on the stock prices of 90 telecommunications firms. The study revealed a positive impact of credit risk disclosure on financial reporting quality, with firms that disclosed more detailed information experiencing higher market valuations. The focus on a single industry limits the generalizability of the findings. Future research could expand to include a broader range of industries.

Johnson and Evans (2023) explored how credit risk disclosure affects financial reporting quality in the energy sector, aiming to assess whether detailed disclosures lead to higher market valuations from 2019 to 2023. The study utilized panel data regression analysis on a sample of 85 energy firms to examine the relationship between credit risk disclosures and financial reporting quality. The study found a positive correlation between credit risk disclosure and financial reporting quality, with energy firms that disclosed more detailed information experiencing higher market valuations. The sector-specific focus limits the generalizability of the findings. Including firms from various sectors could provide a more comprehensive understanding.

Ahmed and Hossain (2022) investigated the impact of market risk disclosure on the financial reporting quality of firms in the emerging markets. They aimed to understand whether enhanced risk disclosure affects the stock market performance of companies. The study analyzed data from 2016 to 2021. The study used a quantitative approach with panel data regression analysis. Data were collected from financial statements and stock prices of 150 firms across various emerging markets. The analysis focused on the correlation between the quality of market risk disclosure and stock market performance. The results indicated a positive relationship between detailed market risk disclosure and financial reporting quality. Firms with comprehensive risk disclosures tended to have higher stock prices and better market valuation. While the study provides valuable insights into emerging markets, its focus on a broad range of countries may obscure specific regional differences. Additionally, the study could benefit from a more granular analysis of industry-specific effects.



Carter and Smith (2022) investigated the effect of market risk disclosure on the financial reporting quality of firms in the European Union. The study aimed to assess whether regulatory changes in disclosure practices impact firm valuation. Covering the period from 2018 to 2022, the study employed a quantitative approach using event study methodology to analyze stock price reactions to changes in disclosure regulations. Data were collected from financial reports and stock prices of 120 European firms. The results indicated that changes in market risk disclosure regulations led to significant variations in stock prices, with enhanced disclosure being associated with increased financial reporting quality for firms complying with new regulations. While the event study methodology effectively captures short-term market reactions, it may not reflect long-term valuation effects. Additionally, the study's focus on the EU may limit its applicability to non-European contexts.

Wang and Lee (2023) investigated the impact of operational risk disclosure on financial reporting quality in the technology sector. They aimed to determine if enhanced disclosure practices affect stock market performance. The study analyzed data from 2018 to 2022. The methodology involved a quantitative approach with panel data regression analysis. Data were collected from 120 technology firms, focusing on their operational risk disclosures and stock market performance. The results indicated a positive correlation between detailed operational risk disclosure and financial reporting quality. Firms with comprehensive risk information had higher stock prices and better market valuations. While the study provides valuable insights into the technology sector, its focus on a single sector may limit generalizability. Including firms from other industries could offer a more comprehensive view of disclosure impacts.

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of countries may obscure specific regional differences. Additionally, the study could benefit from a more granular analysis of industry-specific effects.

Smith and Johnson (2022) aimed to explore how liquidity risk disclosure impacts financial reporting quality, focusing on whether greater transparency in liquidity risks affects market valuation. The study analyzed data from 2019 to 2022. The researchers employed quantitative analysis using regression models, analyzing liquidity risk disclosure scores and corresponding stock market data from 100 firms across various sectors. The study found a positive correlation between liquidity risk disclosure and financial reporting quality, with firms having detailed liquidity risk disclosures generally showing higher stock prices. While providing valuable insights, the study's broad sector focus may limit specific sectoral insights. Future research could focus on individual industries for a more nuanced understanding.

Theoretical Framework

Signaling Theory: The Signaling theory formulated by Spence (1973) as cited in Brian, Trevis, Duane & Christopher (2001) demonstrated the signaling function of education by adopting the labour market model. In the theory, Spence asserts that "Potential employers lack information about the quality of job candidates. The candidates, therefore, obtain education to signal their quality and reduce information asymmetry. This is presumably a reliable signal because lower quality candidates would not be able to withstand the rigors of higher education (Brian et al., 2001)." The Spence signaling theory was further specifically applied by Weiss (1995); Kirmani and Rao (2000) to help illustrate two firms which differed in quality (the high-quality firms and low-quality firms), an illustration very apt for the current study. They maintained that the firms know their own true quality, outsiders (e.g., investors, customers) do not have the information, so information asymmetry is present. Consequently, each firm could signal or not signal its true quality to outsiders arguing that firms are perceived less risky where they disclosed all relevant information to the stakeholders, especially those outside of an entity (Brian et al., 2001). This will increase patronage where there is a positive signal from the disclosure. However, those who chose not to make disclosure are considered as not doing well or hiding some salient facts. In such cases, outsiders can accurately distinguish between high- and low-quality firms (Weiss 1995; Kirmani & Rao, 2000). Consequently, such signals influence outside observers' (e.g., lenders, investors) perceptions of firm quality.



Recently, signaling theory is considered by researchers as one of the theories that explain the relationship between information contents of financial statements and corporate financial reporting quality (Connelly et al., 2011). The companies' directors prepare reports that provide signals about its activities and performance while the market participants utilize the information for informed decision making. (Connelly et al., 2011). Hence, studies concerning corporate disclosures usually employ the theory as basic theoretical framework. (Sheu, Chung, & Liu, 2010; Uyar & Kilic, 2012). This proposed that entity with good performance would disclose more information as compared to those poor performing firms. Also, risk disclosure in the financial statements signals future direction of the firms to the users as opined by signalling theory (Anam, et al., 2011; Morris, 1987).

In the same vein, authors such as Uyar and Kilic (2012) proposed that corporate disclosure provides adequate information to the potential and existing investors, maintaining that performing firms would report more information to the market compared to poor performing firms (Mavlanova et al., 2012; Wallace & Naser, 1995). This was considered relevant to the current study because less risky firms or put differently companies with less risk exposure on financial instruments are likely to disclose more information than the riskier ones.

Methodology

The study adopted an ex-post facto research design. The population of this study comprises all the listed industrial goods companies in Nigeria as recognized by the Nigerian Exchange Group (NGX). As at 2025, the industrial goods sector consists of thirteen (13) listed firms. Given the relatively small size of the population, the study will employ a census sampling approach, where all listed industrial goods companies are included in the sample. Secondary sources was utilized for data collection. The study employed a dynamic panel regression technique to analyse the panel data generated from the annual reports of listed industrial goods companies in Nigeria.

Model specification

$$FRQ_{it} = \beta_0 + \beta_1 FRQ_{it-1} + \beta_3 CRISK_{it} + \beta_4 MRISK_{it} + \beta_5 OPRISK_{it} + \beta_6 LQRISK_{it} + \epsilon_{it}$$

Where:

FRQ = Financial Reporting Quality

CRISK = Credit/Financial Risk Disclosure Intensity

MRISK = Market/Strategic Risk Disclosure Intensity

OPRISK = Operational Risk Disclosure Intensity

LQRISK = Liquidity Risk Disclosure Intensity



AUCE = Audit Committee Expertise

ϵ_{it} = idiosyncratic error.

Table 1 Definition of Variables

Definition	Measurement	Sources
Financial Reporting Quality	measured by Modified Jones	Jones (1991) Dechow et al. (1995)
Credit Risk Disclosure	Credit risk disclosure disclosed index	Arora, Sagggar and Singh (2021)
Market Risk Disclosure	Market risk disclosure disclosed index	Raithatha (2021)
Operational Risk Disclosure	Operational risk disclosure index	Based on Linsley and Shrives (2006)
Liquidity Risk Disclosure	Liquidity risk disclosure index	Musneh, et al. (2021)
Audit committee expertise	Measured by proportion of members with accounting qualification, finance industry experience or membership of professional associations of audit committee	Muhammad, Suleiman, and Sani (2017)

Source: Researcher Compilation, 2025

Results and Discussion of Findings

Table 2: Descriptive Statistics

	Mean	Maxi	Mini	Std.Dev.	Skew	Kurt	Obs
FRQ	0.351359	0.506100	0.094053	0.124662	-0.76635	2.180794	130
CRISK	4.376923	5.000000	3.000000	0.638134	-0.51993	2.344844	130
MRISK	5.476923	6.000000	3.000000	0.882345	-1.56101	4.293032	130
OPRISK	4.930769	6.000000	4.000000	0.612385	0.036957	2.661175	130
LQRISK	5.838462	6.000000	5.000000	0.369451	-1.83933	4.383137	130

Source: Result Output, 2025

Table 2 presents the descriptive statistics of the study variables. Financial reporting quality (FRQ) has a mean of 0.351, ranging from 0.094 to 0.506, with a low standard deviation of 0.125, indicating fairly consistent reporting practices among the sampled industrial goods companies. The negative skewness and kurtosis slightly below three suggest a moderately left-skewed and approximately normal distribution. Credit risk (CRISK) shows a mean of 4.377, ranging from 3.000 to 5.000, with moderate variation (SD = 0.638) and a negative skew, implying higher credit risk is more common. Market risk (MRISK) has a mean of 5.477 with SD = 0.882, showing greater variability and a leptokurtic, negatively skewed distribution, indicating most firms report high market risk. Operational risk (OPRISK) records a mean of



4.931 with low dispersion, near-zero skewness, and kurtosis near three, suggesting symmetry and approximate normality. Liquidity risk (LQRISK) has the highest mean of 5.838 with minimal variability, highlighting liquidity management as a critical and uniformly significant risk dimension among Nigerian industrial goods companies.

Table 3: Correlation Matrix

Correlation Probability	FRQ	CRISK	MRISK	OPRISK	LQRISK
FRQ	1.000000				
CRISK	-0.226578 0.0095	1.000000			
MRISK	-0.095085 0.2819	0.242734 0.0054	1.000000		
OPRISK	-0.348576 0.0000	0.047456 0.5918	0.563709 0.0000	1.000000	
LQRISK	-0.229737 0.0086	-0.101425 0.2509	0.357069 0.0000	0.635453 0.0000	1.000000

Source: Result Output, 2025

Table 3 presents the correlation matrix, illustrating both the direction and strength of associations among financial reporting quality (FRQ) and the different dimensions of risk. Credit risk (CRISK) exhibits a statistically significant negative correlation with FRQ ($r = -0.227$, $p = 0.0095$), suggesting that industrial goods companies facing higher credit risk tend to report lower-quality financial statements. This finding aligns with the view that elevated credit risk may create incentives for earnings management or reduce transparency in reporting. Market risk (MRISK) also shows a negative relationship with FRQ ($r = -0.095$, $p = 0.2819$), although it is not statistically significant, indicating that market-related fluctuations such as interest rate or exchange rate volatility do not exert a strong direct effect on reporting quality within the study period. Operational risk (OPRISK), on the other hand, demonstrates a stronger and highly significant negative correlation with FRQ ($r = -0.349$, $p < 0.01$), implying that weaknesses in internal processes, systems, and controls are closely associated with poorer financial reporting outcomes. Liquidity risk (LQRISK) similarly shows a significant negative correlation with FRQ ($r = -0.230$, $p = 0.0086$), highlighting that firms under liquidity pressure may produce less reliable or credible financial reports. The inter-correlations among the risk variables reveal moderate to strong positive associations, particularly between market risk and operational risk ($r = 0.564$, $p < 0.01$), and between operational risk and liquidity risk ($r = 0.635$, $p < 0.01$). These findings indicate that different types of risk tend to move together, reflecting



the interconnected nature of risk exposures within industrial goods companies. The results underscore the importance of considering multiple risk dimensions simultaneously, supporting the use of multivariate analysis to assess potential moderating or interactive effects rather than focusing solely on direct bivariate relationships.

Table 4 Result of the Regression Analysis

Arellano-Bond dynamic panel-data estimation						
Number of obs	=	104				
Group variable: ID						
Number of groups	=	13				
Time variable: YEAR						
Obs per group:	min =	8				
	avg =	8				
	max =	8				
Number of instruments =	45	Wald chi2(5)	=	146.05		
		Prob > chi2	=	0.0000		
One-step results						
FRQ	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
FRQ L1.	-.172902	.0749272	-2.31	0.021	-.3197567	-.0260474
CRISK	.0143659	.0054161	2.65	0.008	.0037505	.0249813
MRISK	-.0029977	.0072903	-0.41	0.681	-.0172864	.0112909
OPRISK	-.0452721	.0080518	-5.62	0.000	-.0610534	-.0294908
LQRISK	-.1196872	.01252	-9.56	0.000	-.1442259	-.0951485
_cons	1.287975	.1009225	12.76	0.000	1.090171	1.48578
Instruments for differenced equation						
GMM-type: L(2/.)FRQ						
Standard: D.CRISK D.MRISK D.OPRISK D.LQRISK CRISK MRISK OPRISK LQRISK						
Instruments for level equation						
Standard: _cons						

Source: Result Output, 2025

The Arellano-Bond dynamic panel-data estimation examines the impact of different risk dimensions on financial reporting quality (FRQ) while accounting for the dynamic nature of reporting practices across 13 listed industrial goods companies over eight years. The model includes lagged FRQ (FRQ L1) to capture persistence in financial reporting behavior.

The coefficient on the lagged dependent variable, FRQ L1 = -0.173 (p = 0.021), is negative and statistically significant, indicating a negative partial adjustment effect. This suggests that past financial reporting quality slightly inversely affects current reporting quality, implying that improvements or lapses in reporting practices may not be fully persistent across periods. This finding aligns with prior research suggesting that reporting quality can fluctuate in response to internal and external pressures, including managerial incentives and regulatory scrutiny (Bushman & Smith, 2001; Healy & Wahlen, 1999).

Credit risk (CRISK) has a positive and significant coefficient of 0.014 (p = 0.008), which is somewhat counterintuitive given the negative correlations observed in descriptive analysis. This result may indicate that firms with higher credit exposure adopt more robust reporting



mechanisms to reassure creditors and investors, consistent with agency theory, which posits that higher risk prompts firms to increase transparency (Jensen & Meckling, 1976; Adeyemi & Fagbemi, 2019).

Market risk (MRISK) shows a small, negative, and statistically insignificant effect (-0.003 , $p = 0.681$), suggesting that exposure to market-related uncertainties such as interest rate or exchange rate fluctuations does not significantly influence financial reporting quality in the sampled industrial goods companies during the period under study. This finding aligns with earlier correlation analysis where market risk exhibited an insignificant relationship with FRQ (Suleiman & Usman, 2023).

Operational risk (OPRISK) has a significant negative impact (-0.046 , $p < 0.001$), indicating that inefficiencies in internal processes, systems, and controls substantially reduce reporting quality. This result reinforces the empirical evidence that weak operational risk management can lead to poor data integrity, incomplete disclosures, and lower transparency in financial statements (Onyeizugbe & Obigbemi, 2022; Beattie, et al., 2004).

Liquidity risk (LQRISK) also has a large and highly significant negative effect (-0.120 , $p < 0.001$), highlighting that firms facing liquidity pressures are likely to compromise reporting quality, possibly due to constraints in resources allocated to financial controls or delayed reporting practices. This is consistent with prior studies that identify liquidity stress as a driver of reporting lapses and reduced transparency (Agbo, 2020; Olanrewaju & Aladejana, 2021).

The Wald chi-square statistic of 146.05 with $p < 0.001$ confirms the overall significance of the model, indicating that the included risk factors jointly explain variations in financial reporting quality. The use of 45 instruments and the GMM estimation framework is appropriate for controlling endogeneity and potential autocorrelation inherent in panel data with a small number of firms and multiple years (Arellano & Bond, 1991; Roodman, 2009).

Conclusion and Recommendations

This study examined the relationship between risk disclosure and financial reporting quality (FRQ) among listed industrial goods companies in Nigeria. The findings indicate that financial reporting quality is influenced by various dimensions of risk, with operational and liquidity risks emerging as the most critical determinants. The GMM results show that inefficiencies in internal processes and systems (operational risk) and liquidity pressures significantly reduce



reporting quality, highlighting the importance of robust operational controls and adequate liquidity management in ensuring transparent and reliable financial statements. Interestingly, credit risk appears to have a positive effect on FRQ, suggesting that firms with higher credit exposure may enhance reporting practices to maintain investor and creditor confidence, whereas market risk does not exhibit a significant direct effect on financial reporting quality. The results also reveal that risk exposures are interrelated, reinforcing the need for integrated risk management strategies.

Based on the study findings, the following recommendations are proposed:

- i. Industrial goods companies should invest in robust internal control systems and process improvements to minimize operational inefficiencies that compromise financial reporting quality. Regular audits, process monitoring, and risk assessments should be institutionalized.
- ii. Companies should develop effective liquidity management strategies, including cash flow forecasting and short-term financing planning, to reduce the negative impact of liquidity risk on reporting quality.
- iii. Firms should expand the scope of risk disclosures in their annual reports to provide stakeholders with detailed insights into operational, credit, liquidity, and market risks, thereby improving transparency and investor confidence.
- iv. The Financial Reporting Council of Nigeria (FRCN) and the Nigerian Exchange Group (NGX) should continue to encourage best practices in risk reporting, providing guidelines on both qualitative and quantitative risk disclosures for industrial firms.
- v. Boards of industrial goods companies should enhance financial literacy and risk management expertise among directors, particularly for audit committees, to ensure that risk disclosures and financial reporting are accurate and decision-useful.
- vi. Companies should adopt integrated frameworks that link risk management with financial reporting processes. This will ensure that emerging risks, particularly operational and liquidity risks, are promptly reflected in financial statements.



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