Research Paper
Impact Factor: 3.996
Peer Reviewed & Indexed Journal

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

BOARD REPUTATION, ACADEMIC EXPERTISE, POLITICAL AFFILIATION AND FINANCIAL REPORTING QUALITY

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Abstract
This study critically examined the impact of board reputation, academic expertise, political and affiliation on financial reporting quality. A sample of ten banks was selected employing simple judgmental sampling technique. Ordinary least square multivariate regression was employed to analyse the data collected. Our results show that academic expertise has a positive impact on financial quality while audit independence has a positive impact on financial quality at 5% level of significance. However political affiliation and board reputation do not have significant impact on financial reporting quality. We recommended that the apex bank should mandate all banks to give a quota to academician on their boards.

Key Word: Board Reputation, Academic Expertise, Political Affiliation and Financial Reporting Quality.

1.0 Introduction

Financial reporting has been viewed as a vital part of infrastructure involved for gaining access to global capital such as foreign direct investment, especially in emerging economies. Even though the importance of high quality reporting cannot be over emphasized, it is worrisome that recent studies on corporate financial reporting indicate that the report of corporate entities need proper scrutiny .Some of these studies connected low-quality financial report quality to the influence of politicians on the board, lack of board expertise and lack board member reputation. Recent trends in corporate board structure signify an increase in the selection of independent directors with various backgrounds. Although the extant literature considered the undeniable impact of legal and accounting expertise on financial reporting quality, the literature is yet to examine the role of academics serving on corporate boards. Reputational capital theory suggests that academics seeking to protect their reputation capital would leverage on their academic expertise to improve firms' financial reporting quality. Economic bonding theory, on the other hand, suggests that directors irrespective of their background have an economic linked with management and may give management freehand to pursue opportunistic accounting choices in order to protect this economic bond. Anecdotal evidence shows that in quest for neat report, a lot of corporate entities have gone a step ahead to beef up their boards with more non-executive directors that have diverse academic backgrounds. This development has put the roles of academicians on the board in the spot light in recent times. Academics are seen as intellectual assets because they offer expertise advice in their given disciplines. A major task of academicians in countries like U.S., in addition to teaching and research in one's given discipline, is serving on committees and on other governance structures. This Service may include serving and chairing of committees. These have put academics board members in a unique position to provide additional expertise and leadership on corporate boards. Some are of the opinion that reputation of the board member improves the quality of report produced by the corporate entity and lack of reputation reduces the quality of financial report .

Recent studies also suggest that there is a strong feeling among many academicians especially those in the professorial cadre that their expertise is under-utilized (Macfarlane, 2011). Academics are termed to be uniquely positioned to provide expertise to corporate boards. Suffices to say that given the nature of their full-time employment in academia, academicians are presumably serving on corporate boards for reasons other than strictly monetary compensation. The lack of economic bonding that exists between them and management is to likely to make academics to be more effective in firms' corporate governance structures.

A director's reputation capital thus indicates that he is a credible monitoring officer that will not compromise his integrity for economic gains. The implacable of character directors give them the tools needed for monitor management effectively and in turn ensure high earnings quality. Reputable directors not only have the know-how needed for effective monitoring but also have strong affinity for ensuring high quality monitoring. It is also obvious that reputable directors have inducement to put in more effort and be more on the alert than non-reputable directors because they will not want to dent their good image.
The aim objective of this paper is to find out the impact of board diversity on financial reporting quality of the Nigerian banking sector.

2.0 Literature Review

Board Reputation and Financial Reporting Quality

It generally believed that the reputation of multi-board directors can be captured by the summation of the market worth of the other firms on which they serve as independent directors. This measurement is probable a better proxy for reputation for two reasons. First, it allows for disparity in reputation across directors who hold the same number of directorship positions.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Second, it recognizes that being a member of boards of large firms may result in different reputation capital than just being a member of boards of small firms.

The most popular measurement for director reputation is the number of directorships held by the director (Gilson 1990; Ferris et al. 2003; Yermack 2004). Directors who occupy several directorship positions are said to be reputable directors, and be highly demanded CEOs to the point that they are more possibly allow obtain excessive compensation(Bebchuk & Fried 2006). Despite the fact that we understood what is meant by reputation, measuring the reputation of an individual is a non-trivial exercise. Milbourn (2003) reports that the evidence that highlights the challenge with using any one empirical proxy. There are two hypotheses that explain board reputation- skilled hypothesis and ineffective director hypothesis. The skilled hypothesis posits that reputable directors enhance financial reporting quality. Contrary to the skilled director hypothesis, the ineffective director hypothesis posits that director reputation is negatively associated with reporting quality because directors can be member on numerous boards and yet be ineffective monitors. Second, serving on multiple boards can make directors too busy to be effective monitors. Consistent with the busy argument, Beasley (1996) finds that the probability of being involved in accounting fraud increases as the average number of directorships held by outside directors increases. Fich and Shivdansi (2006) further show that board with busy directors are associated with weak corporate governance. Francis et al. (2005) argue that firms that operate in volatile markets are expected to have low earnings quality because of the nature of these firms' operations, they are likely to need the know-how and skills of a reputable director who can provide valuable advice to management.

Political Affiliation and Financial Reporting Quality

Prior studies show that political influence can arise through connection with certain individuals who have power in government,(Belkaui,2004;Faccio,2006;Fisman,2001), through state ownership of enterprise (Bushman, Piotroski et al,2004), the presence of politician(s) on the board of director and through golden share held by government (Hanousek,Kocendak &Sveynar,2007).Political tie or connection between company and politician are difficult to identify because the ties or connection are mostly informal. Abdul-Wabah (2007) classified political connected companies as those companies that had been associated with certain politicians.

Agrawal and Knoeber(2001) found that companies that have business relationship with government tend to include outside directors with background in politics on their board.

Leuz and Oberholzer –Gee (2008) and Bushman et al (2004) also found that financial transparency is referred to the amount and timeliness of financial disclosure. Belkauio (2004) related political influence to earnings opacity and the result shows negative relationship.

In Malaysian context Abdul-Wahab and Verhoeven (2007) investigated the impact of political affiliation on reporting quality. Their result shows that political connection has a significant negative impact on reporting quality.

Academic Directors and Financial Reporting Quality

Academic directors could increase firm value through their impacts on various corporate decisions. Mehran (1995) argues that firm performance is positively related to equity-based compensation, because equity-based compensation gives CEOs incentives to increase firm value. Academic directors play an important monitoring role on management, stakeholders would expect that they affect the financial reporting quality of the firm.

Compared to other kinds of outside directors, academic directors have several unique characteristics that could enhance the effectiveness of corporate boards because they are experts in their research fields, including business, technology, and law. Audretsch and Lehmann (2006) opine that directors with academic backgrounds can enhance the competitive advantage of firms by facilitating access to and absorption of external knowledge spillover. In most announcements of appointing professors as non-executive directors, CEOs and chairmen often note that a professor's academic expertise will be of great benefit to the company.

The expertise theory indicates that academic directors can be valuable advisors who bring unique expertise into the boardroom. Furthermore, academic directors' principal areas of expertise are academic in nature because they can think through problems differently than non-academics hence can provide different perspectives in the boardroom. They are trained to be critical thinkers with their own opinions and judgments, and they are less influenced by others and can be tough when necessary (Jiang & Murphy, 2007). Academicians have less direct connections with insiders as compared to many other outside directors, and therefore are more independent. Fama (1980) and Fama and Jensen (1983) argue that academic directors have incentives to monitor management because they want to protect their reputation as effective, independent

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

decision makers. Academics are generally regarded as intellectual leaders in their given discipline and also experts because of the skills necessary to enter and work in the professoriate.

3.0 Methodology

Population and Sample Size

The population covers the twenty two banks quoted on the Nigerian Stock Exchange d as at 31 December 2014.

In view of the nature of the proposed model used for the study, a filter is employed to eliminate some of the firms that have no complete records of all the data needed for measuring the variables of the study within the period (2005-2014). Consequently, the judgmental sampling was adopted to eliminate firms that have either disappeared from the trading schedule of NSE as at 31st December, 2014 or have incomplete records. Hence a total of ten banks were selected.

Method of Data Analysis

The study used longitudinal balanced panel data from secondary sources only because it is a quantitative study with positivism paradigm and the core of the data needed for analysis can be adequately and conveniently extracted from the audited financial reports of the selected firms within the period of the study. Multivariate e regression technique was adopted to examine the model of the study with the aid of Microsoft excel software.

Model Estimation and Specification

To examine the impact of board diversity on financial quality of the Nigerian banks we estimate the following regression model as a guide in a bid to arriving at some empirical findings and conclusion under the study:

$$FRQ = f\ (BACAEXPT, BPOLAFF, BRUPT)$$

Operationally the model is:

$$FRQ = \beta_0 + \beta 1\ BDCAEXPT + \beta_2\ BPOLAFF + \beta_3\ BRUPT + Ut$$

Where;

FRQ = financial reporting quality.
BDCAEXPT = Board academic expertise.
BDRUPT = Board reputation
BDPOLAFF = Political affiliation
Ut = Stochastic error term

A prior expectation:

β_0, $\beta_{1,}$ $\beta_{2,}$ β_3, β_4, $\beta_{5,} > 0$

Table 3: Regression Analysis

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	28587023	9970255	2.867231	0.004996	8820023	48354024
ACEXPT	9769150	5842452	2.672098	0.047454	-1814078	21352378
PAFF	-4195124	4039006	-1.03865	0.30133	-1.2E+07	3812597
BREPT	-2215417	8953337	-0.24744	0.805046	-2E+07	15535443

Source: Researcher's computation calculated by Microsoft excel 2007

R=0.79; R^2=0.53

Adjusted =0.48

Interpretation

We started the analysis by checking out the fitness of the model. We discovered that it has a t value of 0.03 at 95%.levl of confidence .The result also shows that coefficient of determination of R-square stood at a value of 0.53.Adjust R-square stood at a value of 0.48. This implies that about 50% of dependent variable (FRQ) can be explained by the explanatory variables (ACEXPT, PAFF and BREPT) while the rest 22 % could not be accounted for.

IJMSRR
E- ISSN - 2349-6746
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The result shows that there is a positive relationship between financial reporting quality (FRQ) and academics expertise (ACEXPT) this relationship is statistically significant (p=0.04<0.05,t=2.6). The coefficient value of a unit of board with an academician will lead to an increase in audit quality (FRQ) by 9769150. Furthermore, the result reveals that there is a positive (p=0.3>0.05,t=.-1.04) relationship between financial reporting quality (FRQ) and political affliction of board (PAFF). This relationship is not statistically significant.

Finally, the result reveals that there is a negative and but insignificant (p=0.8< 05,t=-0.24) relationship between financial reporting quality (FRQ) and board reputation (BREPT).

4.0 Conclusion and Recommendation

The aim of finding is to find out the impact of board reputation, academic expertise and board political affiliation on financial reporting quality. The results show that there is a positive relationship between academic expertise and financial reporting quality in the Nigerian banking sector. This implies that the more the academicians on board the better the financial reporting quality of the Nigerian banks .This result is in line with Lehmann (2006) which shows that there is a positive relationship between financial reporting quality and academic expertise.

Our results further show that there is no significant relationship between financial reporting quality and political affiliation.

Finally, our result shows that there is no significant relationship between financial reporting quality and board reputation.
The study recommended that the Nigerian apex bank should be mandate banks to create quota for academicians on their boards to enhance quality financial reports.

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Appendix

Summary Output

Regression Statistics						
Multiple R	0.791639					
R Square	0.03227					
Adjusted R Square	0.004882					
Standard Error	45681140					
Observations	110					
Anova						
	Df	**SS**	**MS**	**F**	**Significance F**	
Regression	3	7.38E+15	2.46E+15	1.178231	0.321628	
Residual	106	2.21E+17	2.09E+15			
Total	109	2.29E+17				
	Coefficients	**Standard Error**	**t Stat**	**P-value**	**Lower 95%**	**Upper 95%**
Intercept	28587023	9970255	2.867231	0.004996	8820023	48354024
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