

Board Configuration and Financial Report Credibility: Evidence from Nigeria's Quoted Manufacturing Firms.

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ABSTRACT

Original research paper

This study investigates the relationship between Board Configuration and financial Report Credibility Manufacturing firms. Using panel data from 2016 to 2020, the study examines how board structure, board composition, audit committee size, and CEO duality affect financial report credibility. Results from regression analyses indicate that both board structure and audit committee size have significant positive impacts on financial report credibility, while CEO duality exhibits a negative but non-significant relationship. These findings support agency theory and underscore the importance of governance structures in enhancing transparency and reporting integrity. The study provides critical insights for policymakers and corporate boards seeking to improve governance practices in emerging markets.

Keywords: Board configuration, financial report credibility, board structure, audit committee, CEO duality, Let it be alphabetical order.

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1. Introduction

Board Configuration has emerged as a critical driver of financial transparency and performance, particularly in developing economies. In Nigeria, high-profile corporate failures and governance lapses have spotlighted the role of governance mechanisms in safeguarding stakeholder interests and maintaining financial stability (Okonkwo et al., 2019; Balogun & Ajao, 2018). Listed manufacturing firms play a significant role in Nigeria's economy, contributing to GDP growth and employment, yet often face governance challenges that impact financial report credibility.

Prior studies provide mixed evidence on how specific governance mechanisms influence financial outcomes. While

some scholars argue that larger boards enhance oversight and report Credibility (Zakaria et al., 2020), others find excessive board structure may impede decision-making (Adejare & Aliu, 2020). Similarly, the effectiveness of audit committees and the implications of CEO duality remain contested (Adams & Mehran, 2023). This study seeks to clarify these relationships within the context of the Nigerian manufacturing sector.

The key objective is to investigate the impact of board structure, board composition, audit committee size, and CEO duality on financial report Credibility among Nigeria's Quoted manufacturing firms.

2. Scholarly Context

2.1 Board Configuration and Financial Report Credibility

Bo Configuration comprises structures and processes designed to ensure accountability, integrity, and transparency in corporate operations (Araoye & Olatunji, 2019). Effective governance reduces agency costs by aligning managerial interests with those of shareholders, thereby enhancing financial report credibility (Jensen & Meckling, 2020).

Empirical evidence remains inconclusive. Some studies show that board independence and size can positively influence financial transparency (Elegunde, 2020), while others report negative impacts linked to inefficiency and coordination problems in large boards (Mak & Kusnadi, 2005). Audit committees are regarded as vital monitors of financial disclosures (Klein, 2002). CEO duality is often criticized for concentrating power and undermining checks and balances (Fama & Jensen, 2023).

2.2 Corporate Governance in the Nigerian Context

Nigeria's regulatory landscape has evolved significantly, with the Securities and Exchange Commission (SEC) and the Nigerian Exchange Group introducing governance codes to improve corporate accountability (Ogbechie, 2021). Despite these reforms, governance challenges persist, particularly in the manufacturing sector, where infrastructural, regulatory, and operational difficulties can exacerbate governance lapses.

Given conflicting evidence in the literature and the contextual peculiarities of Nigeria, further empirical investigation is necessary.

3. Analytical Approach

3.1 Research Architecture

An ex-post facto research design was employed, utilizing panel data from 2016 to 2020 drawn from the annual reports of listed manufacturing firms on the Nigerian Exchange Group.

3.2 Model Specification

The econometric model estimated is:

$$FRQ = \alpha_0 + \alpha_1 BSZ + \alpha_2 BIN + \alpha_3 ACS + \alpha_4 CEOD + \varepsilon$$

Where:

- FRQ = Financial Disclosure Credibility
- BSZ = Board Structure
- BIN = Board Independence
- ACS = Audit Committee Size
- CEOD = CEO Duality

3.3 Data Collection and Measurement

- **Board Structure:** Total number of board members.
- **Board Independence:** Ratio of independent directors to total board members.
- **Audit Committee Size:** Number of audit committee members.
- **CEO Duality:** Binary variable (1 = duality; 0 = no duality).
- **Financial Disclosure Credibility:** Measured by a composite disclosure score derived from annual reports.

Regression analyses were performed using OLS estimation techniques.

4. Empirical Evidence and Insights

4.1 Quantitative Data Overview

- Average board size: 8.23 members.
- Average audit committee size: 4.12 members.
- Approximately 42% of firms practiced CEO duality.
- Financial reporting quality averaged 0.75, suggesting generally good reporting standards.

4.2 Correlation Analysis

- Board Structure ($r = 0.35$) and audit committee size ($r = 0.40$) were positively correlated with financial reporting quality.
- CEO duality showed a weak negative correlation ($r = -0.12$).

4.3 Regression Results

- **Board Structure:** Significant positive impact on financial report Credibility ($\beta = 0.25$; $p < 0.01$). Larger boards appear better equipped to oversee reporting processes.
- **Directorial independence:** Positive but modest impact ($\beta = 0.18$; $p = 0.04$), supporting agency theory.
- **Audit Committee Size:** Strong positive effect ($\beta = 0.30$; $p < 0.01$), confirming the audit committee's monitoring role.
- **CEO Duality:** Negative but statistically insignificant effect ($\beta = -0.15$; $p = 0.096$), suggesting duality does not significantly undermine report credibility in this context.

Discussion:

The findings align with agency theory, demonstrating that robust governance structures enhance financial reporting quality. However, CEO duality's non-significant impact suggests that other governance checks may mitigate potential

risks associated with concentrated leadership in Nigerian firms. The strong role of audit committees underscores the importance of technical expertise in financial oversight.

5. Conclusion

This study contributes to the corporate governance literature by providing empirical evidence from Nigeria's manufacturing sector. Results indicate that larger boards and audit committees significantly improve financial report credibility, supporting calls for strengthened governance frameworks in developing economies. Policymakers and corporate leaders should prioritize governance reforms focusing on board composition and audit committee effectiveness.

Future research could examine sectoral differences, the influence of ownership structure, and potential moderating variables like regulatory enforcement intensity.

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