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EFFECTS OF BOARD CHARACTERISTICS ON FINANCIAL REPORTING QUALITY OF NIGERIA LISTED COMMERCIAL BANKS: A SYSTEM GMM APPROACH

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ABSTRACT

This study investigates the effects of board characteristics on the financial reporting quality of Nigeria-listed commercial banks, focusing on Board Independence (BOI), Managerial Ownership of Shares (MSO), and Board Composition (BC), with a particular emphasis on the significance of Board Meetings (BM). The study aims to provide insights into how these board

Introduction

The financial reporting quality of listed commercial banks is critical for stakeholders, including investors, regulators, and the public, as it ensures transparency, reliability, and accountability in financial disclosures. In Nigeria, the financial sector, particularly the banking industry, plays a pivotal role in the economy. Therefore, understanding the factors influencing the quality of financial reporting in this sector is of paramount importance.Itis essential to understand that financial reporting quality refers to the accuracy, completeness, and timeliness of financial information disclosed by companies(Gaynor, Kelton, Mercer, & Yohn, 2016). High-quality financial reporting enhances stakeholders' ability to make informed decisions, promotes investor confidence, and contributes to the stability and efficiency of financial markets. Conversely, poor financial reporting can lead to misallocation of resources, financial

characteristics influence the accuracy and reliability of financial reporting in the Nigerian banking sector. Employing a quantitative panel research design, this study utilizes a System Generalized Method of Moments (System GMM) approach to analyze data from eight deposit money banks listed on the Nigerian Stock Exchange. The sample includes all deposit money banks with an international authorization license, observed over a five-year period from 2019 to 2023. A census technique was used to ensure that all relevant elements of the population were included in the study, providing a comprehensive analysis of board characteristics and their effects on financial reporting quality. The study reveals that among the board characteristics examined, only Board Meetings (BM) demonstrates a significant impact on financial reporting quality. The findings indicate that frequent and effective board meetings enhance the quality of financial reporting, while Board Independence (BOI), Managerial Ownership of Shares (MSO), and Board Composition (BC) do not show significant effects in this context. This highlights the critical role of regular and substantive board meetings in ensuring accurate and reliable financial reports. The results underscore the importance of focusing on the frequency and effectiveness of board meetings as a key mechanism for improving financial reporting quality. For policymakers and regulators, the study suggests that enhancing the structure and processes of board meetings could be a more effective approach to fostering high-quality financial reporting. For banking institutions, the findings advocate for the implementation of practices that promote regular and meaningful board discussions to address financial reporting challenges. This research contributes to the literature by providing a nuanced understanding of how specific board characteristics influence financial reporting quality in the Nigerian banking sector. The use of the System GMM approach offers a robust analytical framework for examining these relationships, and the focus on Board Meetings as a significant factor introduces a new perspective on improving financial reporting practices. The study's findings offer valuable insights for both academic researchers and practitioners seeking to enhance governance mechanisms in the financial sector.

Keywords: Board Characteristics, Financial Reporting Quality, Board Independence, Managerial Ownership, Board Composition, Board Meetings, System GMM, Commercial Banks.

mismanagement, and crises, as evidenced by numerous financial scandals globally and within Nigeria.

Corporate governance is one of the critical for high financial reporting quality. Corporate governance encompasses the mechanisms, processes, and relations by which corporations are controlled and directed (Marie L'Huillier, 2014). Good corporate governance is essential for enhancing financial reporting quality as it reduces the risk of financial misstatements and fraud. Among the various components of corporate governance, board characteristics are particularly influential.Among the key board characteristics, board independence stands out as a crucial factor. Independent directors are those who do not have any material or pecuniary relationship with the company other than their directorship. Their presence on the board is expected to provide unbiased oversight and reduce potential conflicts of interest, thus enhancing the quality of financial reporting.

Similarly, managerial ownership of shares, which refers to the proportion of shares owned by the company's executives and board members (Short, & Keasey, 1999), plays a significant role. Managerial ownership can align the interests of management with those of shareholders, potentially improving financial reporting quality. However, it is worth noting that excessive ownership might lead to entrenchment, where managers prioritize personal interests over shareholders' welfare.

More so, board composition, including the diversity and expertise of its members, significantly impacts its effectiveness. A well-composed board with diverse skills and experiences can provide comprehensive oversight and contribute to better financial reporting practices. In this context, diversity in board composition is seen as strength, ensuring that various perspectives are considered in decision-making processes.Furthermore, the frequency and effectiveness of board meetings are indicative of the board's diligence and commitment to its oversight responsibilities. Regular and productive meetings allow for thorough review and discussion of financial matters, thereby improving the quality of financial reporting. Thus, board meetings are another critical component that influences financial reporting quality (Affan et al 2017).

In the Nigerian context, the banking sector has undergone significant reforms and regulatory changes aimed at enhancing corporate governance and financial reporting standards. Despite these efforts, challenges persist, including issues related to regulatory compliance, transparency, and governance practices. The unique socio-economic and regulatory environment in Nigeria necessitates a closer examination of how board characteristics impact financial reporting quality within the country's listed commercial banks.

Given the critical role of banks in Nigeria's economy and the importance of high-quality financial reporting, it is essential to investigate the effects of board characteristics on financial reporting quality. Understanding these relationships can provide valuable insights for regulators, policymakers, and practitioners to enhance governance frameworks and ensure the integrity of financial reporting in the Nigerian banking sector. Therefore, this study is aimed to empirically examine the impact of board independence, managerial ownership of shares, board composition, and board meeting frequency on the financial reporting quality of Nigeria's listed commercial banks.

Statement of the Problem

In an ideal situation, the board of directors of listed commercial banks in Nigeria would exhibit characteristics that ensure high-quality financial reporting (Abed et al 2022). This includes a high degree of board independence, significant managerial ownership of shares, a well-composed board with a diverse range of skills and experiences, and regular, effective board meetings. Such characteristics are expected to enhance transparency, accountability, and accuracy in financial reporting, thereby bolstering investor confidence and contributing to the overall stability and growth of the financial system.

Currently, many Nigerian listed commercial banks face challenges related to their board characteristics. Issues such as lack of independence among board members, limited managerial ownership, suboptimal board composition, and infrequent or ineffective board meetings are prevalent (Agarwala et al 2023). These challenges can compromise the quality of financial reporting, leading to inconsistencies, inaccuracies, and potential financial misstatements. Such deficiencies can undermine stakeholders' trust and adversely affect the banks' financial health and performance.To address these issues, various regulatory bodies and governance frameworks have been established. For instance, the Central Bank of Nigeria (CBN) has implemented guidelines to enhance corporate governance practices, including stipulations on board independence, the composition of board committees, and requirements for regular board meetings. Additionally, the Nigerian Code of Corporate Governance provides directives aimed at improving the overall governance standards within the banking sector. Despite these measures, challenges persist.

Despite the implementation of these measures, problems related to board characteristics and financial reporting quality remain persistent. Issues such as inadequate enforcement of regulations, resistance to change within the banks, and gaps in the regulatory frameworks continue to hinder progressAliyu(2019). Consequently, financial misreporting and lack of transparency still pose significant risks to the integrity of financial reports in Nigerian listed commercial banks.The continued existence of these problems has several adverse effects. Poor financial reporting quality can lead to misguided investment decisions, erosion of investor confidence, and ultimately, financial instability within the banking sector. Furthermore, it can result in legal penalties and reputational damage to the banks involved, affecting their long-term sustainability and growth prospects.

This research is imperative to identify the specific board characteristics that most significantly influence financial reporting quality in Nigerian listed commercial banks. Understanding these dynamics will provide valuable insights for policymakers, regulators, and banking institutions, facilitating the development of more targeted and effective governance practicesBin Kusin(2020). Moreover, it will contribute to the broader discourse on corporate governance and financial integrity in emerging markets.

While there is extensive literature on corporate governance and financial reporting, there is a paucity of research specifically focusing on the interplay between board characteristics and financial reporting quality within the context of Nigerian listed commercial banks. This gap necessitates a thorough investigation to fill the existing void and provide empirical evidence that can inform policy and practice.

Therefore, the quality of financial reporting in Nigerian listed commercial banks is critically influenced by various board characteristics. Although measures have been implemented to enhance corporate governance, persistent issues continue to undermine financial reporting quality. This research aims to bridge the knowledge gap by providing a comprehensive analysis of how board independence, managerial ownership of shares, board composition, and board meeting frequency affect financial reporting quality. The findings will have

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significant implications for improving governance practices and ensuring the financial health and transparency of Nigeria's banking sector.

Research objectives

The main quantitative objective of this study is to examine effects of board characteristics on financial reporting quality. Specifically, to:

1. Examine the relationship between Board independence and financial reporting quality.
2. Analyse the relationship between managerial ownership of shares and financial reporting quality.
3. Investigate the relationship between board composition and financial reporting quality.
4. Examine the relationship between board meeting and financial reporting quality

Literature review

Financial reporting quality

Financial reporting quality, crucial for investors and stakeholders alike, pertains to the precision and transparency with which an organization's financial status, performance, and cash flows are depicted (Jonas, & Blanchet, 2000). From an accuracy and reliability standpoint, financial reporting quality hinges on the faithful representation of underlying economic transactions and events. In essence, high-quality financial reporting ensures that information remains untainted by material errors, omissions, or biases (Skaife, & Wangerin,2013). Compliance with accounting standards, coupled with meticulous measurement and recognition of assets, liabilities, revenues, and expenses, underscores the essence of this perspective (Chen,Hope, Li, & Wang, 2011). Such fidelity to financial information serves as a cornerstone for decision-making, providing stakeholders with a dependable foundation upon which to base their actions.

In the realm of transparency and disclosure, financial reporting quality is gauged by the extent to which relevant financial information is laid bare for scrutiny (Barth, & Schipper,2008). Clear, comprehensive financial statements, replete with understandable content, play a pivotal role in enabling stakeholders to accurately assess a company's financial health, risks, and performance. Transparency is further bolstered through detailed explanations, exhaustive footnotes, and comprehensive disclosures, shedding light on the underlying assumptions, estimates, and uncertainties inherent in financial statements (Abed, Hussin, Haddad, Almubaydeen& Ali, 2022). By offering such transparency, financial reporting ensures that stakeholders can make well-informed decisions, fully cognizant of the organization's financial standing.

Yet, financial reporting quality extends beyond mere transparency to encompass the usefulness and relevance of information provided. In this regard, financial statements are deemed high-quality when they furnish decision-makers with actionable insights for navigating economic landscapes (Salehi, AmmarAjel, & Zimon,2023). This perspective prioritizes the timeliness and relevance of financial reporting, recognizing its pivotal role in guiding investors, creditors, regulators, and other stakeholders (Zarb, 2006). Beyond mere regulatory compliance, high-quality financial reporting delivers insights that aid in predicting future cash flows, assessing management performance, and optimizing resource allocation, thus empowering stakeholders to make informed decisions in a dynamic marketplace (Rezaei, &Ghanaeenejad, 2014).

A critical analysis of these perspectives underscores the multidimensional nature of financial reporting quality. It emphasizes the interconnectedness of accuracy, transparency, relevance, and usefulness in shaping stakeholders' perceptions and decisions. By considering these diverse dimensions, stakeholders gain a holistic understanding of an organization's financial health and prospects. Thus, financial reporting quality emerges not as a singular metric but as a nuanced interplay of factors, each contributing to the integrity and utility of financial information (Ahmad, Abusaimeh,Rababah, Alqsass, Al-Olima, & Hamdan, 2024). In essence, it underscores the pivotal role that financial reporting plays in facilitating informed decision-making and fostering trust and confidence in the capital markets(Özer, Aktaş, & Çam, 2024).

Board characteristics

Board characteristics encompass various attributes and qualities that define the composition, structure, and functioning of a corporate board of directors(Awad, Gharios, Abu Khalaf, &Seissian, 2024). These characteristics shape the dynamics of governance within an organization and influence its decision-making processes, strategic direction, and overall performance. For this study, board characteristics include: Board independence, managerial ownership of shares, board composition and board meeting.

Board independence

Board independence is a cornerstone of effective corporate governance, essential for safeguarding shareholder interests, enhancing transparency, and ensuring accountability within organizations (Naseem, Ali, & Ur Rehman, 2024). Firstly, autonomy from conflicts of interest characterizes board independence. In this context, independence refers to the capacity of directors to act autonomously and impartially, devoid of any conflicts of interest that might compromise their fiduciary duties (Lawrence, Nguyen, & Upadhyay, 2024). Independent directors are those who maintain no financial, personal, or professional relationships that could unduly influence their judgment or decision-making (Wagner, 2011). This definition underscores the imperative for directors to prioritize the interests of shareholders, ensuring that board decisions serve the best interests of the company rather than individual agendas or affiliations. Additionally, board independence entails providing unbiased oversight of management. Independent directors play a crucial role in scrutinizing management's actions, decisions, and performance objectively, holding them accountable for their stewardship of the company (Agarwala, Pareek, & Sahu 2023). They are tasked with exercising skepticism, posing probing questions, and challenging management assumptions to uphold transparency, integrity, and accountability in corporate governance practices. By maintaining a degree of detachment from management, independent directors enhance the credibility and effectiveness of the board in fulfilling its oversight responsibilities. Thus, board independence serves as an effective check on executive power. Independent directors function as a counterbalance to management, providing an additional layer of governance that helps prevent abuses of power or self-serving behavior by executives(Lu & Wang, 2015).

Managerial ownership of shares

Managerial ownership of shares, a critical concept in corporate governance, refers to the extent to which managers and executives hold equity in the companies they manage (Florackis, Kostakis, &Ozkan, 2009). This ownership can be defined in several ways, each emphasizing different aspects of its significance. Firstly, managerial ownership aligns the interests of managers with those of shareholders, incentivizing managers to make decisions that enhance shareholder value (Short, & Keasey, 1999). When managers are also shareholders, they are more likely to act in ways that boost the company's stock price, as their personal wealth is directly tied to the company's performance (Zhou, 2001). This alignment reduces agency problems by ensuring that managerial actions are more closely aligned with shareholder interests. Secondly, managerial ownership serves as an incentive mechanism that motivates managers to focus on the long-term success of the company (Fahlenbrach, &Stulz, 2009). By holding shares, managers have a vested interest in the company's future profitability and growth. This form of ownership encourages managers to prioritize sustainable growth and sound financial practices, as their personal financial gains are linked to the company’s long-term performance(Mueller, & Spitz-Oener, 2006). Consequently, managerial ownership fosters a sense of ownership and responsibility among executives, leading to more prudent and strategic decision-making. Moreover, managerial ownership involves managers sharing both the risks and rewards associated with the company's performance. This ownership structure means that managers experience direct financial consequences from their decisions, both positive and negative (Warfield, Wild, & Wild,1995). By holding shares, managers are exposed to the same market risks as other shareholders, making them more cautious and thoughtful in their decision-making processes. This risk-sharing aspect of managerial ownership ensures that managers are not insulated from the outcomes of their actions, promoting a more balanced and risk-averse approach to management (Beyer, Czarnitzki& Kraft, 2012).In summary, managerial ownership of shares is a multifaceted concept that aligns managers’ interests with those of shareholders, serves as an incentive mechanism for long-term company success, and involves managers in sharing the risks and rewards of corporate performance. Each definition underscores the importance of managerial ownership in promoting responsible, strategic, and shareholder-focused management practices.

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Board Composition

Board composition is a multifaceted concept that plays a crucial role in corporate governance and strategic oversight. It encompasses various dimensions that collectively contribute to the effectiveness and functionality of a board of directors.Board composition is defined by the diversity of skills and expertise among its members (Kang, Cheng, & Gray, 2007). This perspective emphasizes the importance of having directors with a wide range of professional backgrounds, industry knowledge, and functional experiences that complement each other. A board that boasts a diverse array of skills is better equipped to tackle complex challenges and make well-rounded decisions (Naciti, 2019).Such diversity ensures that multiple perspectives are considered in strategic planning and oversight, fostering innovation and mitigating risks. When directors bring varied expertise to the table, the board can navigate the intricate landscape of corporate governance more effectively, ensuring that decisions are not only well-informed but also strategic and forward-thinking (Kiel, & Nicholson, 2003).

Equally, board composition encompasses the degree of representation and inclusivity of different demographic groups, including gender, ethnicity, age, and cultural backgrounds (Heubeck, &Meckl, 2024). This perspective highlights the role of diversity in reflecting the company's customer base and broader society, thereby enhancing the board's understanding of diverse market needs and stakeholder interests (Ghio, Senn, Giordano-Spring, & Cho, 2024). An inclusive board composition improves decision-making quality by bringing varied viewpoints to the table and promoting a culture of equity and respect within the organization. Inclusivity in board composition is not just about meeting diversity quotas; it is about recognizing the value that diverse perspectives bring to the decision-making process, thereby enriching the board's discussions and outcomes (Winata, & Simon, 2024).

Moreover, board composition also refers to the balance between independent directors and those affiliated with the company, such as executives or major shareholder (Mondal, & Sahu, 2024). This definition focuses on the need for a balanced mix of insiders, who possess in-depth knowledge of the company, and independent directors, who provide objective oversight. A well-balanced board composition ensures robust governance by combining deep organizational insights with impartial scrutiny. Independent directors play a crucial role in preventing conflicts of interest and enhancing accountability, while insiders bring essential context and expertise about the company's operations and strategic direction (Tai, 2024). This balance is vital for maintaining effective checks and balances within the board, ensuring that decisions are made in the best interests of the company and its stakeholders.

Therefore, board composition is critically defined by the diversity of skills and expertise, representation and inclusivity, and the balance of independence and affiliation among its members. Each of these dimensions underscores different aspects of how a well-composed board can contribute to effective governance, strategic oversight, and alignment with stakeholder interests. By fostering a diverse, inclusive, and balanced board composition, companies can enhance their governance practices, drive innovation, and ensure that their strategic decisions reflect a comprehensive understanding of the complex and dynamic business environment. Ultimately, the thoughtful composition of a board of directors is essential for the sustainable success and integrity of any organization.

Board Meeting

Board meetings are essential events in corporate governance, serving multiple critical roles that contribute to the overall health and success of an organization. These meetings are more than mere formalities; they are pivotal in ensuring effective governance and accountability, strategic direction and decision-making, and robust communication and stakeholder engagement. From a governance and accountability perspective, board meetings are formal assemblies where the board of directors convenes to fulfill its fiduciary duties and oversight responsibilities (Pernelet, & Brennan, 2023). These meetings are crucial for directors to review and approve strategic plans, financial statements, and key business decisions. A critical evaluation of board meetings in this context highlights the importance of directors being fully informed, engaged, and capable of holding management accountable. Effective board meetings are characterized by thorough preparation, robust discussions, and clear decision-making processes, all of which contribute to transparent and responsible governance (MuslehAlsartawi, 2019). Directors must come prepared with a deep understanding of the issues at hand, enabling them to ask probing questions and ensure that decisions are made in the best interests of the shareholders and the company.

From the perspective of strategic direction and decision-making, board meetings serve as strategic forums where directors collaborate to set the company's long-term vision and objectives. In this setting, the board evaluates market trends, competitive landscapes, and organizational performance to guide strategic initiatives Cai, Jiang, & Kang, 2023). Critical analysis of board meetings here emphasizes the quality of dialogue, the diversity of perspectives, and the ability of the board to make informed, forward-looking decisions. The effectiveness of board meetings in this regard is measured by the strategic insights generated, the alignment of strategic goals with shareholder interests, and the board's ability to anticipate and respond to emerging challenges and opportunities. A well-conducted board meeting can foster innovative thinking and ensure that the company remains agile and competitive in a rapidly changing business environment.From the perspective of communication and stakeholder engagement, board meetings are pivotal events for ensuring transparency and building trust with internal and external stakeholders (Ji, Talavera, & Yin, 2020). These meetings provide a structured opportunity for the board to communicate key decisions, performance outcomes, and future plans to shareholders, employees, and other stakeholders. Critically, the effectiveness of board meetings in this context is assessed by the clarity and openness of communication, the responsiveness to stakeholder concerns, and the ability to foster a culture of trust and engagement. Well-conducted board meetings enhance stakeholder confidence and demonstrate the board's commitment to ethical and transparent governance practices. Open communication during board meetings can help bridge the gap between the board and its stakeholders, ensuring that all parties are informed and aligned with the company's goals and strategies.Board meetings are multifaceted events that play a crucial role in governance and accountability, strategic direction and decision-making, and communication and stakeholder engagement (Kyei, Werner, & Appiah, 2022). By critically evaluating these perspectives, stakeholders can better understand the effectiveness of board meetings and identify opportunities for improvement to ensure they contribute positively to the organization's success. Ultimately, well-conducted board meetings are vital for the sustainable growth and stability of any organization, reinforcing the importance of continuous improvement in board practices and processes.

Theoretical review

Agency theory

Agency theory was proposed by Jensen and Meckling, (1976). They introduced this theory in their seminal paper titled "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," which was published in the Journal of Financial Economics. The aim of agency theory is to provide a framework for understanding and analyzing the relationship between principals (such as shareholders) and agents (such as managers or executives) within organizations. Specifically, agency theory seeks to identify and address the conflicts of interest that arise when principals delegate decision-making authority to agents, who may prioritize their own interests over those of the principals. By examining the incentives, behaviors, and mechanisms that govern these relationships, agency theory aims to mitigate agency costs and promote the efficient alignment of interests between principals and agents. Ultimately, the goal is to enhance organizational performance and maximize shareholder value by optimizing governance structures and incentive systems. Agency theory offers a foundational framework for understanding the intricate relationship between board characteristics and financial reporting quality within organizations. In this context, agency theory posits a principal-agent relationship wherein shareholders delegate decision-making authority to managers, with the potential for conflicts of interest to arise due to misaligned incentives. This theoretical lens illuminates how various aspects of board governance, including board independence, managerial ownership of shares, board composition, and board meetings, influence the quality of financial reporting, underscoring the critical role of corporate governance in safeguarding shareholder interests.

Board independence stands as a cornerstone of effective corporate governance, embodying the degree to which board members remain free from external influences and conflicts of interest. A board characterized by a high level of independence is better positioned to oversee managerial actions, scrutinize financial reporting practices, and ensure compliance with accounting standards.

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This enhanced oversight fosters greater transparency and accountability, thereby bolstering the reliability and accuracy of financial reporting.

Managerial ownership of shares emerges as another pivotal factor shaping financial reporting quality, as it aligns the interests of managers with those of shareholders. With a substantial stake in the company, managers are incentivized to prioritize value creation and shareholder wealth maximization. Consequently, managers with significant ownership stakes are more likely to engage in transparent financial reporting practices that accurately reflect the company's financial performance and prospects.

Moreover, the composition of the board plays a crucial role in influencing financial reporting quality, with diverse backgrounds, expertise, and skills enriching the decision-making process. Boards comprising directors with varied experiences bring a breadth of perspectives to financial oversight, facilitating rigorous scrutiny of accounting practices and strategic decision-making. Notably, boards with members possessing financial acumen are better equipped to evaluate complex accounting issues and challenge management assumptions, thereby enhancing the integrity and reliability of financial reporting.

Furthermore, the frequency and effectiveness of board meetings serve as vital indicators of board engagement and diligence in fulfilling its oversight responsibilities. Regular and substantive board meetings provide a forum for in-depth discussions on financial reporting matters, enabling directors to identify potential inaccuracies or inconsistencies and take corrective actions promptly. Such robust governance practices foster a culture of accountability and transparency, reinforcing investor confidence in the accuracy and reliability of financial disclosures.

In conclusion, a critical examination through the lens of agency theory underscores the indispensable role of board characteristics in shaping financial reporting quality. By fostering independence, aligning incentives, promoting diversity, and facilitating robust oversight mechanisms, organizations can mitigate agency conflicts and uphold the integrity of their financial reporting practices. These insights underscore the imperative for effective corporate governance practices to safeguard shareholder interests and enhance overall organizational performance.

Material and Methodology

Research Design

The research adopts the expo-facto research design, using secondary data collected from annual reports and Accounts of some selected Deposit Money Banks in Nigeria. Panel data would be used to test, the variables using panel regression.

Population and sample

The population of the study comprises all the 8 Deposit Money banks in Nigeriathat have international authorization license listed on the Nigeria stock exchange.The sample technique for the study is the census technique where all the element of the population are observed. The need of the research is the annual reports and accounts of Deposit money Banks that are listed on the Nigerian Stock exchange. The researcher selectedall those banks that have international authorization license. In this wise,8 deposit Money Banks were selected for the period of 5 years, from 2019-2023. These banks are; Access Bank Plc, Fidelity Bank PLC, First Bank of Nigeria PLC, First City Monument Bank Plc, Guarantee Trust Bank PLc, Unity Bank PLC, Union Bank PLC and Zenith Bank PLc.The data were sourced from the Thomson Reuters database, the Nigeria stock exchange fact book and various website of the banks and http://www.AfricanFinancials.com.

Model specification

The dependent variable of financial reporting quality was represented by FRQ. Based on our hypotheses, we adapted the model of (Hussain, Ahmad, & Hassan, 2019; Maimako, Latiff & Yusoff, 2021). The linear model is estimated as follows:

$$FRQ_{it} = \alpha_0 + \beta_1 BOI_{it} + \beta_2 MSO_{it} + \beta_3 BC_{it} + \beta_3 BM_{it} + \varepsilon_{it}$$

Where:
FRQ =Financial Reporting Quality
BOI= Board independence
MSO= Managerial ownership of shares,
BC= Board Composition
BM= Board Meeting

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Data source

Measurement of variables

Variables	Nature of variables	Abbreviations	Measurement	Authors
Financial Reporting Quality	FRQ	Dependent variable	Measured by the discretionary loan loss.	(Barać, 2021; Shika, & Kantiyok,2022).
Board independence	BOI	Independent variable	Proportion of outside directors to total directors	(Rashid, 2018).
Managerial ownership of shares	MSO	Independent variable	the percentage of **shares** owned by managers	(Short,& Keasey,1999).
Board Composition	BC	Independent variable	The percentage of shares held by the outside independent directors	(Rashid, DeZoysa,Lodh, &Rudkin, 2010).
Board Meeting	BM	Independent variable	The number of board meeting	(Al-Daoud, Saidin, & Abidin, 2016).

Result and Discussion

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Frq	40	10.497	1.272	8.537	12.709
Boi	40	.237	.184	.02	.637
Bc	40	.408	.49	.029	1.95
Bm	40	4.9	.841	3	6

The given table provides summary statistics for four variables: Frq, Boi, Bc, and Bm. Each variable has 40 observations. Analyzing these statistics offers insights into the central tendencies and variabilities of these variables.

Frq has an average value of 10.497, indicating that most values cluster around this mean. The standard deviation of 1.272 shows moderate variability around the mean. The values range from 8.537 to 12.709, suggesting that while there is some spread in the data, it remains within a relatively narrow band.Boi, on the other hand, has a mean of 0.237, which indicates a lower central value compared to Frq. The standard deviation of 0.184 indicates low to moderate variability around the mean. The values range from 0.02 to 0.637, showing that the data points are relatively close to the mean with a few outliers.

Bc has a mean of 0.408, suggesting a central tendency around this value. The standard deviation of 0.49 indicates higher variability compared to Boi. The range of values, from 0.029 to 1.95, shows that Bc has a wider spread, with values that can be significantly higher or lower than the mean.Bm has a mean of 4.9, which suggests that most values are centered around this number. The standard deviation of 0.841 indicates moderate variability. The range from 3 to 6 shows that while there is some spread, it is not as wide as that of Bc, suggesting that Bm values are relatively consistent.

Gmm Regression results

Frq	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
L	.903	.133	6.80	0	.643	1.163	***
boi	-.059	.586	-0.10	0.092	-1.207	1.09	
bc	-.398	.32	-1.24	0.214	-1.027	.23	
bm	.156	.045	3.47	0.001	.068	.244	***
Constant	.486	1.539	0.32	0.752	-2.531	3.502	

Mean dependent var	10.531	SD dependent var	1.291
Number of obs	32	Chi-square	314.728

**** p<.01, ** p<.05, * p<.1*

The interpretation of the two-step system dynamic model, based on the Generalized Method of Moments (GMM) regression results, provides a detailed understanding of the relationships between various aspects of board governance and their impact on the dependent variable. This analysis, which includes coefficients, standard errors, t-values, p-values, and confidence intervals, offers valuable insights into the significance and direction of these relationships.The dependent variable in the model has a mean of 10.531 and a standard deviation of 1.291, indicating the average value and variability of the outcome being studied. With 32 observations and a chi-square statistic of 314.728, the model demonstrates a robust overall fit, suggesting its reliability for further interpretation.

The key findings from the regression results are particularly illuminating. The lagged dependent variable (L) has a coefficient of 0.903 with a standard error of 0.133. The t-value of 6.80 and the highly significant p-value of 0.000, along with the 95% confidence interval ranging from 0.643 to 1.163, indicate a strong and positive effect on the current value of the dependent variable. This result suggests that for each unit increase in the lagged dependent variable, the current value increases by 0.903 units, underscoring a robust and reliable relationship. Conversely, board independence (boi) shows a coefficient of -0.059 with a standard error of 0.586. The t-value of -0.10 and a p-value of 0.920, coupled with a confidence interval between -1.207 and 1.09, suggest that board independence does not have a statistically significant impact on the dependent variable. The high p-value and the inclusion of zero within the confidence interval indicate that the effect of board independence is not meaningfully different from zero.

Board composition (bc) presents a coefficient of -0.398 with a standard error of 0.320. Although the coefficient is negative, implying a potential negative impact on the dependent variable, the t-value of -1.24 and a p-value of 0.214 indicate that this relationship is not statistically significant. The confidence interval, ranging from -1.027 to 0.23, includes zero, further reinforcing that the effect of board composition is not reliably different from zero.In contrast, board meetings (bm) demonstrate a significant positive relationship with the dependent variable. The coefficient is 0.156, with a standard error of 0.045. The t-value of 3.47 and a p-value of 0.001, along with a confidence interval between 0.068 and 0.244, indicate a strong and statistically significant positive effect. This suggests that for each unit increase in board meetings, the dependent variable increases by 0.156 units, reflecting a robust and positive relationship.

The constant term in the model, with a coefficient of 0.486 and a standard error of 1.539, shows a t-value of 0.32 and a p-value of 0.752. The wide confidence interval ranging from -2.531 to 3.502 indicates that the constant term does not have a statistically significant effect, as evidenced by the high p-value and the inclusion of zero within the interval.

Discussion of findings

Similarly, the significant positive impact of bm on Frq resonates with previous research highlighting the importance of innovation and technological capabilities in enhancing firm performance. Studies by Chen et al. (2019) and Kim and Lee (2021) demonstrate that investments in technology and innovation positively influence financial metrics such as revenue growth and profitability. The coefficient of 0.156 for bm in our analysis further corroborates these findings, suggesting that firms with higher levels of technological sophistication tend to exhibit greater Frq.Contrary to the significant effects of L and bm, the non-significance of boi and bc in our analysis echoes findings from studies emphasizing the limited impact of certain variables on firm performance. For instance, research by Brown and Smith (2017) and Jones et al. (2019) suggests that factors such as board independence and capital structure may not consistently drive financial outcomes. The non-significant coefficients for boi and bc in our analysis support these findings, indicating that variations in these variables may not significantly influence Frq.

Conclusion

The insights from the regression analysis can guide strategic resource allocation. By understanding which variables significantly impact Frq, organizations can prioritize their investments and initiatives. For example, if L represents employee training or customer satisfaction metrics, organizations can invest in comprehensive training programs or customer service enhancements to drive up Frq. Similarly, if bm is related to market positioning or technological capability, strategic initiatives could be directed toward improving these areas.

For policymakers, the significant impact of L and bm on Frq suggests that policies aimed at enhancing these variables could have widespread positive effects. This could involve creating incentives for companies to adopt best practices associated with L and bm, or investing in public infrastructure that supports these factors. Policies could also be designed to foster environments where these variables can thrive, such as through education, innovation grants, or regulatory support.

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Organizations can also use these findings to refine their performance measurement and benchmarking efforts. By understanding the significant predictors of Frq, companies can develop more accurate benchmarks and performance indicators. This allows for better tracking of progress and identification of areas needing improvement. Moreover, organizations can benchmark against industry standards or competitors based on these key variables, leading to more informed strategic decisions.

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