Journal of Contemporary Issues in Business and Government Vol. 27, No. 2, 2021
https://cibg.org.au/
P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2021.27.02.015

The Influence of CEO Characteristics on Financial Reporting Quality in Nigerian Non-Financial Listed Companies

UMAR ALIYU MUSTAPHA[1], NORFADZILAH RASHID[2*], SADIQ RABIU ABDULLAHI[3], ROSEMARY OBIAGERI OBASI[4]

[1,2]Faculty of Economics and Management Sciences, University Sultan Zainal Abidin (UniSZA).
[3]Department of Accounting, Faculty of Management Sciences, Bayero University, Kano, Nigeria [4]Department of Accounting, Benson Idahosa University, Benin City, Edo State, Nigeria
*Corresponding Author
Email ID: nikmfadzilah@unisza.edu.my

Abstract: There are several reasons through which financial statements are poorly prepared and reported in order to mislead the end-users. Also, the CEO's claimed a high performance on their routine duties to achieve a targeted standard in their organisations. It may also be for them to maintain corporate goodwill in the eyes of the business community or to win the power of competitiveness, the craze to satisfy the greed of the company's insiders. The objective of this study is to examine the influence of CEO characteristics on the financial reporting quality of the Nigerian non-financial listed companies. The population of the study is the all non-financial listed companies in Nigeria from the year 2012 to 2017, which saved as the sample of the study. The data was collected using secondary sources from the DataStream, annual reports and account of the selected companies. The analysis was carried out using multiple regression after the necessary post estimations tests for the panel data analysis. The study recognised a negative insignificant relationship between CEO tenure and financial reporting quality, while the CEO ownership provides a positive significant relationship with financial reporting quality using accrual earnings management. The study employed the use of agency and creative accounting theories to justified the proposed hypothesis. The findings of the study highlighted the current contributions of the CEO's towed the credibility of the Nigerian corporation's financial reporting practices.

Keywords: CEO Characteristics, Financial Reporting Quality, Nigerian Non-Financial, Listed Companies.

INTRODUCTION

The financial reporting quality of the companies plays a significant role in the decision making process of accounting information users. However, it was argued that firms might use earnings manipulation to conceal present poor performance or to understate present excellent performance to effectively save that for the future (Burgstahler et al., 2006). Thus, it was deliberated that financial misconduct is highly likely when it is expensive for outsiders to supervise the company's operations and managers (Amiram et al., 2018). Meanwhile, Dakhlallh et al. (2019b) noted that there is a positive and important correlation between government ownership and firm performance in the business environment. Consequently, if financial statements are to portray management information on their performance then, standards allow managers to use their discretion on financial reporting. Since auditing is not perfect, managers take advantage of their experience about the entities and their opportunities to select accounting methods and estimates that suit the company's business economics, which can potentially increase the value of the accounting numbers (Healy & Wahlen, 1999).

In Nigeria, there are many issues affecting the Nigerian corporations, which among there is an issue of quality of the financial reporting practices. In addition to that, earnings manipulation activity of the financial statement, severe holes in the regulatory framework and irregular monitoring and enforcement exist, lack of effective controlling processes by the regulatory bodies are other problems in the country (Sunusi, 2010). A case in point includes the poor appointment of the board members which caused some Auditors and CEOs engagement in unethical governance and professional malpractices (Chiejine, 2010; and Manasseh, Asogwa, & Attama, 2014).

This study has the main objective to explore the effect of CEO characteristics on the level of financial reporting quality for the non-financial listed companies in Nigeria. Though, the study is categorised under the five different sections. Section one is the introduction of the research concepts, followed by the reviewing of the relevant literature, and research methodology. The subsequent section is the findings of the study and discussions of the result, then lastly the conclusion and recommendations for future research.

LITERATURE REVIEW

The financial reports are aimed at improving the economic decisions of the users. However, the report is a dual operation in which the providers of the financial reports make them available to the needy in analysing the organisational economic status with the anticipation of best decision by the respective users (Tasios & Bekiaris, 2012). Managers manipulate the financial reports of their companies in order to mislead the users for the best interest of them or the overall interest of the organisations. Therefore, this study recognised earnings management as a proxy of the financial reporting quality using accrual earning bases.

Earnings management can be defined as a deliberate effort by managers to influence the level of reporting earnings to achieve the desired personal objective. However, earnings management is defined by Healy and Wahlen (1999) as the process by which managers manipulate the reporting earnings using judgments in order to change the economic reality of the firms. In addition, Dakhlallh, Rashid, Abdullah, & Dakhlallh (2019a) demonstrated the impact of institutional ownership on Jordanian firm performance a positive and significant. According to NAZIR, & AFZA, (2018), earnings management refer to adjustment and manipulation of reported economic activities by managers to mislead the users of the financial statement.

CEO as one of the top executive plays a vital role in influencing the managerial decision of the firms. As such, partaking ownership in the company share will decrease the gap of interest between the management and shareholders and also it will provide absolute control of earnings manipulation in the organisations. The problem of agency relationship arises from the conflict of the interests of the equity ownership and corporate managers of companies when the separation of ownership and control take place (Jensen, 1976). CEO ownership is among some corporate governance attributes which harmonised the interests of agents and principals to mitigate agency problem. Thus, from the creative accounting theory perspective the CEO can use all legal policy to manipulate the financial report for the attraction of the potential investors.

CEO tenure is being defined as the number of years that the CEO served in the position (Salehi, Lari, & Naemi, (2018). The CEO is in a position to defeat opportunistic behaviours of other corporate managers especially in financial and unethical fraudulent activities in an organisation (Jensen, 1993). One way of addressing this is through the length of time served as a CEO. The longer the tenure, the more influential the CEO becomes (Hu, Hao, Liu, & Yao, 2015).

The empirical result on the relationship between CEO tenure and earnings management are mixed result such as; Ali & Zhang (2015), they study the change in CEO's tenure to manage their firms' reported earnings through discretionary accruals, the findings reveal that CEO tenure affects the market perception of their ability by overstating earnings. Earnings overstate is higher in the early year than the final year of CEOs tenure.

On the other hand, Cella. Ellul & Gupta (2017), investigate the nature of the correlation between CEO tenure and earnings management the finding established that CEO tenure is positively significantly related to earnings management. Also, Hang (2009) investigate CEOs' tenure about earnings quality. The result shows that CEOs with shorter tenure am more likely to manipulate earnings than those with longer tenure. Hu. Hao. Liu and Yao (2015) investigate the association between managerial tenure and earnings management. The result shows that there is none of the measurement of earnings management practices is significantly associated with CEO tenure.

Nevertheless, Mersni, & Ben Othman, (2016) defined CEO ownership as a percentage of total equity held by the CEO in a company. Greater ownership by CEO aligns their interest for stockholders and lead to a decrease in earnings management (Habib, & Hossain, 2013). The study of CEO relationship with earnings management has an inconsistent result. Some study documented a positive relationship. See for example Jiang, Petroni & Wang (2010); and Jiang, Petroni, & Wang, (2010). While Hazarika, Karpoff & Nahaaata (2012) the result indicated a negative relationship. Contrarily, Omoye & Eriki (2014) found no relationship. Therefore, from the literature above the following hypotheses are proposed.

H_1: CEO tenure positively and significantly affects the financial reporting quality level for the non-financial listed companies in Nigeria.

H_2: CEO ownership positively and significantly affects the financial reporting quality level for the non-financial listed companies in Nigeria.

METHODOLOGY

The study used all the non-financial listed companies in Nigeria from the year 2012 to 2017 as the population. Thus, no sample was utilised by the study as the population saved as the sample. The financial data was collected from the DataStream, and the CEO characteristics data were collected from the annual reports and account of the companies. The screening and filtration were carried out to exclude all the companies that have no available data to meet the requirement of this study. The 378 firm years' observations for the 63 out of 113 non-financial listed companies were utilised. The financial sector was not considered in this study due to the nature of their regulation as the sector is governed by the Banks and Other Financial Institutions Act BOFIA of 1991 in Nigeria. The justification for selecting the year 2012 as a starting period of this study is that it is the next year after the year of the implementation for the new code of 2011, some of the firms may not comply immediately with the new code as of the starting year.

Model Specification and Variable Measurement

The dependent variable accrual earnings management is proxies by the performance matched model proposed by (Kothari, Leone, & Wasley, 2005) it is the same as used by the studies of (Bala, 2018). The financial reporting quality was substituted by the estimated residual values found from the regression analyses for the model of the selected companies. Equation 1 display the financial reporting quality that streamlines the estimation process used in this study: Therefore, Financial Reporting Quality (FRQ) is measured as AEM which is expressed as follow.

$$AEM= [(TACCit = a0 + a1(1/TAit\text{-}1) + a2(\Delta Sales/TAit\text{-}1) + a3(PPEit/TAit\text{-}1) + a4ROAit \text{ (or it-1) } + \varepsilon it)] \quad \text{…………} (1)$$

Where FRQ = Financial Reporting Quality, TACC = Total accruals measured as Net Income-Cash flow from the operation, TAi, t-1 = Lag of total assets of a firm, ΔSALES = Changes in sales from current year to last year, PPE = Gross property plant and equipment at the end of the year, and ROA = Return on asset. The proxies of the independent variables are highlighted in table 1 below.

Table 1: the proxies of the independent variables

Variable	Acronyms	Measurement	
CEO Tenure	CEO T	A number of years spent holding the position of CEO by month in the organisation. (Mather & Ramsay, 2006).	
	CEO Ownership	CEO OW	The proportion of shares held by the CEO over the total shares of the company. (Hazarika, 2012).

Using the proxies in table 1 above, the main regression analysis of the study is highlighted in the following model. It explained the relationship between the dependent and the independent variables.

$$FRQ_{it} = \beta 0 + \beta_1 CEO\ T_{it} + \beta_2 CEO\ OW_{it} + \beta_4 LEV_{it} + \beta_5 FAGEit + \beta_6 FSIZEit + \beta_7 FGROW_{it} + \beta_8 ROA_{it} + \varepsilon it \quad \text{…………} (2)$$

Where: FRQ = financial reporting quality, CEO T = CEO tenure, CEO OW = CEO ownership, LEV = leverage, FAGE = firm age, FSIZ = firm size, FGROW = firm's growth, ROA = return on assets, εit = error term.

RESULT AND DISCUSSION

Descriptive Statistic

The study conducted a descriptive statistic test in order to have a statistical summary of the relevant variables of the study. However, Table 2 below presented the descriptive result. As such, the dependent variable of financial reporting quality has a minimum residual value of (0.000), the maximum value of (10.646) and the average value of (0.823) respectively. The independent variables are CEO tenure and CEO ownership. It was reported a minimum number of (0.100) which means one month for CEO tenure in the Nigerian companies, an average of four years two months averagely (4.232) and maximum of nineteen years (19.000) saving as a CEO in the company. Thus, CEO ownership represents the percentage of the shares owned by the CEO in the companies. The descriptive statistic value presented a non-ownership of (0%) minimum of shares ownership and (47%) of the maximum shares ownership and (8.2%) of the average share ownership in the Nigerian companies.

Table 2: Descriptive Statistics

Variable	Mean	Min	Max	Sd
FRQ	0.823	0.000	10.646	1.354
CEO T	4.232	0.100	19.000	3.412
CEO OW	0.082	0.000	4.474	0.467
LEV	0.373	0.007	1.000	0.226
FAGE	23.534	2.000	69.000	14.321
FSIZ	16.774	12.557	21.215	1.799
FGORW	0.711	-1.000	35.211	3.751
ROA	0.018	-1.196	0.641	0.183

Note: FRQ = financial reporting quality, CEO T = CEO tenure, CEO OW = CEO ownership, LEV = leverage, FAGE = firm age, FSIZ = firm size, FGROW = firm growth, ROA = return on asset.

Correlation Matrix

Table 3 below presented the result of correlation matrix which highlighted the linearity relationship among the study variables. Nevertheless, the study of Hollas, Gutman, & Trinajstić, (2005). categorised the level of multicollinearity into three main stages. The first stage is from 0.00 to 0.29 represent a slight correlation, while 0.30 to 0.49 represent an average correlation, and 0.50 to above represent a high correlation. Going by the previous assumption, none of the study variables presents a simple slight correlation. The highest correlation value is 0.122 between CEO ownership and financial reporting quality in Nigerian non-financial listed companies.

Table 3: Correlation Matrix

Variable	AEM	CEO T	BGEN	LEV	FAGE	FSIZ	FGRW	ROA
FRQ	1.000							
CEO T	0.013	1.000						
CEO OW	0.122*	-0.053	1.000					
LEV	0.136**	0.083	0.123*	1.000				
FAGE	0.002	-0.132**	0.048	0.045	1.000			
FSIZ	-0.348***	0.254***	0.066	-0.141**	0.095	1.000		
FGROW	0.453***	0.012	0.085	0.088	-0.060	-0.086	1.000	
ROA	-0.298***	-0.261***	-0.086	-0.095	0.036	0.226***	-0.086	1.000

Note: FRQ = financial reporting quality, CEO T = CEO tenure, CEO OW= CEO ownership, LEV = leverage, FAGE = firm age, FSIZ = firm size, FGROW = firm growth, ROA = return on asset, * $p<0.01$, ** $p<0.05$, *** $p<0.010$.

Regression Result

The data were analysed using multiple regression. Thus, the regression test was carried out after the post estimation tests. However, the model highlighted that independent variables influenced the financial reporting quality as dependent variable by 30% approximately which is the R2 value in the model. Therefore, the P-Value of the CEO tenure documented insignificant negative relationship with financial reporting quality as the coefficient value appeared with a negative sign. Based on the regression result documented, it is statistically agreed that CEO tenure has no positive impact towerd the contribution in providing non-qualitative financial reports in Nigerian non-financial listed companies. This result did not support the proposed hypothesis H_1 of the study. It is also contrary to the assumptions of creative accounting theory and supported the agency theory assumptions. The creative accounting theory assumed that the longer period CEO saved in the organisation the more he might have much experience in applying the accounting principles and rules to manipulate the company earnings and report non-qualitative financial information to the relevant users. In additional views, in a research carried out by 180 Jordanian firms for the period 2009-2017, Dakhlallh, Rashid, Abdullah, Al-Shehab (2020) presented empirical proof that a significant negative correlation exists between managerial ownership and company performance However, the agency theory believes that if CEO saves for an extended period of time in an organization there will be a high chance of studying the behaviours of the corporate managers, and it will give him high chance of preventing them from all dissipated activities in the organization Previous literature supported this finding as the study of Hu. Hu, Liu & Yao (2015) contrary to a study conducted by Hang (2009); Cella. Ellul & Gupta (2017).

The other dependent variable is the CEO ownership which is represented by the percentage in number of shares belongs to the CEO in an organisation. The regression result highlighted a positive significant relationship with financial reporting quality of the selected sample. The P-value is significant at 10% level, and it has a coefficient value of 18%. However, the finding justified that owning a significant percentage of shares by the CEO's is attributed to the increase in earnings manipulations level of the financial reports for the Nigerian non-financial listed companies. As such, the qualities of the financial reports of the companies are affected.

Consequently, the proposed hypothesis H_2 of this study is supported. Hence, the result supported creative accounting theory and is contrary to the agency theory. There is support from the previous studies that documented a positive relationship. See for example Jiang, Petroni & Wang (2010); Hu, Liu & Yao (2015). While Hazarika, Karpoff & Nahaaata (2012); Hang (2009); documented a negative relationship.

Table 4: Relationship between corporate governance attributes and Accruals Earnings Management

FRQ	Coef.	Robust Std. Err.	t-Val	P-Val
CEO T	-0.003	0.015	-0.190	0.848
CEO OW	0.186	0.111	1.670	0.095
LEV	0.237	0.436	0.540	0.587
FAGE	0.004	0.004	0.950	0.034
FSIZ	-0.163	0.048	-3.420*	0.001
FGROW	0.146	0.026	5.500*	0.000
ROA	-1.703	0.710	-2.370*	0.018

Cons	3.299	0.780	4.230	0.000
R2		0.311		
F-Stat		27.220		
P.Value		0.000		
Link Test(Hatsq)		0.146		
Hettest (Chi2)		104.033		
P.value		0.000		
HM Test (Chi2)		31.045		
P.value		0.003		

Note: FRQ = financial reporting quality, CEO T = CEO tenure, CEO OW= CEO ownership, LEV = leverage, FAGE = firm age, FSIZ = firm size, FGROW = firm growth, ROA = return on asset, * p<0.01, ** p<0.05, *** p<0.001. = significant at 1%, 5% and 10% respectively.

CONCLUSION

This study contributed to the lasting argument for the effect of CEO characteristics on the financial reporting quality in the non-financial sector of Nigeria. The study also provides benefit toward improving the understanding of the CEO in the agency, and creative accounting, theories mostly in the non-financial sector of the developing countries, precisely in the federal republic of Nigeria. It also contributed to the framework upon which the government could take appropriate policies on corporate governance and other codes of best practice to move the economy further, to compete favourably with their emerging other counterparts of the world. The study contributed to the body of the relevant literature and academic reference resources. It is recommended that, other variables of CEO characteristics should be employed in order to provide an opening into the fundamental condition of the CEO's practices in Nigeria which will satisfy the interest to indigenous and global investors, directors and also the entire academic researchers for bearing in mind the roles of CEO in providing a qualitative financial reports in Nigeria.

REFERENCES

1. Amiram, D., Bozanic, Z., Cox, J. D., Dupont, Q., Karpoff, J. M., & Sloan, R. (2018). Financial reporting fraud and other forms of misconduct: a multidisciplinary review of the literature. Review of Accounting Studies, 23(2), 732-783.
2. Burgstahler, D. C., Hail, L., & Leuz, C. (2006). The importance of reporting incentives: Earnings management in European private and public firms. The accounting review, 81(5), 983-1016.
3. Cella, C., Ellul, A., & Gupta, N. (2017). Learning through a smokescreen: earnings management and CEO compensation over tenure. Riksbank Research Paper Series Forthcoming, 15-18.
4. Chiejine, F. C. (2010). Corporate Governance In The Nigerian Banking Sector: An Ethical Analysis Of The 2009 Regulator Intervention And Operators' Behaviors. Master of Science in Organizational Dynamics Theses, 29.
5. Dakhlallh, M. M., Rashid, N. M., Abdullah, W. A. W., & Dakhlallh, A. M. (2019a). The Effect of Ownership Structure on Firm Performance among Jordanian Public Shareholders Companies: Board Independence as a Moderating Variable. International Journal of Academic Research in Progressive Education and Development, 8(3), 13–31. https://doi.org/10.6007/IJARPED/v8-i3/6212
6. Dakhlallh, M. M., Rashid, N. M. M., Abdullah, W. A. W., & Dakhlallh, A. M. (2019b). The Moderating Effect of the CEO Duality towards the Influence of the Ownership Structure on the Firm Performance among Jordanian Public Shareholders Companies. International Journal of Academic Research in Progressive Education and Development, 8(3), 32–49. https://doi.org/10.6007/IJARPED/v8-i3/6212
7. Dakhlallh, M. M., Rashid, N., Wan Abdullah, W. A., & Al Shehab, H. J. (2020). Audit committee and Tobin's Q as a measure of firm performance among Jordanian companies. Journal of Advanced Research in Dynamical and Control Systems, 12(1), 28–41. https://doi.org/10.5373/JARDCS/V12I1/20201005
8. Habib, A., & Hossain, M. (2013). CEO/CFO characteristics and financial reporting quality: A review. Research in Accounting Regulation, 25(1), 88-100.
9. Hang Chan, K. (2009). Impact of intellectual capital on organisational performance: An empirical study of companies in the Hang Seng Index (Part 1). The Learning Organization, 16(1), 4-21.
10. Healy, P. M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. Accounting horizons, 13(4), 365-383.
11. Hollas, B., Gutman, I., & Trinajstić, N. (2005). On reducing correlations between topological indices. Croatica chemica acta, 78(4), 489-492.
12. Hu, N., Hao, Q., Liu, L., & Yao, L. J. (2015). Managerial tenure and earnings management. International Journal of Accounting & Information Management, 23(1), 42-59.
13. Hu, N., Hao, Q., Liu, L., & Yao, L. J. (2015). Managerial tenure and earnings management. International Journal of Accounting & Information Management, 23(1), 42-59.

14. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360.
15. Jiang, J. X., Petroni, K. R., & Wang, I. Y. (2010). CFOs and CEOs: Who have the most influence on earnings management? Journal of Financial Economics, 96(3), 513-526.
16. Manasseh, C. O., Asogwa, F. O., & Attama, M. I. (2014). Financial Sector Development: Evidence from Institutional Reforms in Nigeria.
17. Mersni, H., & Ben Othman, H. (2016). The impact of corporate governance mechanisms on earnings management in Islamic banks in the Middle East region. Journal of Islamic Accounting and Business Research, 7(4), 318-348.
18. NAZIR, M. S., & AFZA, T. (2018). Impact of Corporate Governance on Discretionary Earnings Management a Case of Pakistani Firms. Pakistan Economic and Social Review, 56(1), 157-184.
19. Omoye, A. S., & Eriki, P. O. (2014). Corporate Goverance Determinants of Earnings Management: Evidence from Nigerian Quoted Companies. Mediterranean Journal of Social Sciences, 5(23), 553.
20. Peasnell, K. V., Pope, P. F., & Young, S. (2015). Board monitoring and earnings management: do outside directors influence abnormal accruals? Journal of Business Finance & Accounting, 32(7-8), 1311-1346.
21. Salehi, M., Lari Dasht Bayaz, M., & Naemi, M. (2018). The effect of CEO tenure and specialization on timely audit reports of Iranian listed companies. Management Decision, 56(2), 311-328.
22. Sanusi, L. S. (2010). The Nigerian banking industry: what went wrong and the way forward. Delivered at Annual Convocation Ceremony of Bayero University, Kano Held on, 3(1), 2010.
23. Tasios, S., & Bekiaris, M. (2012). Auditor's perceptions of financial reporting quality: the case of Greece. International Journal of Accounting and Financial Reporting, 2(1), 57.