

ILORIN JOURNAL OF MANAGEMENT SCIENCES



ISSN 2408-655X

**Published by:
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF ILORIN**

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**Volume 6, No.1,
June 2020**

ILORIN JOURNAL OF MANAGEMENT SCIENCES

ISSN 2408-655X

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<https://www.unilorin.edu.ng/ejournals/index.php/ijms>

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BOARD GENDER DIVERSITY AND ACCOUNTING CONSERVATISM IN NIGERIA QUOTED DEPOSIT MONEY BANKS

Temitope Olamide FAGBEMI (Ph.D.)^{*}
Abdulrasheed B. YUNUS

Abstract

The increasing business crises have been attributed to failures of moral leadership as many corporations engage in unethical practices to cover poor performance. However, the inclusion of more women in corporate boards is expected to induce more conservative reporting because women have been known to display a stronger ethical disposition. Therefore, this study examines board gender diversity and accounting conservatism in Nigerian Deposit Money Banks using the stakeholder's theory. Panel regression (fixed effect) technique was employed to test the hypothesis of the study for a 7-year period ranging from 2012 to 2018 using 14 out of 15 quoted. The results show that diversity of the board's gender is not significantly linked to Nigeria's accounting conservatism of listed DMBs. This implies that increase in female representation in the in the board of listed DMBs in Nigeria would not affect accounting conservatism. It is recommended that the appointment to the board should be on merit and not on gender while the big banks should adopt more conservative reporting to avoid litigation.

Keywords: Gender diversity, Conservatism, Banks, Corporate board, Nigeria

Introduction

Corporate failure is still a major concern in the business world in spite of the various corporate governance mechanisms adopted in the world. Managers continue to pursue their personal interest which is different from that of the shareholders. Some empirical researches have attributed the increasing business crises to failures of moral leadership as many corporations engage in unethical practices to cover poor performance (Michalos & Kahlke, 2008; Poff, 2010). Bonding compensation of managers to some performance indicators to reduce agency problem has encouraged embarking on aggressive reporting. Accounting conservatism is arguably the oldest and most prominent attributes of accounting information and it is one of the many measures of the quality of reported results of firms. Ishola (2012) described conservatism as the "tendency of accountants to make choices that will present the lowest possible financial figures by providing for all possible losses and not recognising possible gains until they are realized". Despite its criticism as a violation of neutrality, accounting conservatism remains an important metric of financial reporting quality because it helps to offset uncertain business situation

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thereby increasing reliability of accounting records. Xia (2015); Wang and Kallunki (2015) have recommended conservative reporting for improving the credibility of financial reports. Conservative reporting serves as a corporate governance mechanism by militating against agency problem among managers, debt holders, and shareholders (Ahmed et al. 2002; Bushman et al., 2011; Lafond & Roychowdhury, 2008). The positive relationship between accounting conservatism and the ability of present sales to predict future cash flow has been observed by Bandyopadhyay, Chen, Huang and Jha (2010). This is why companies have to be more conservative to make their documents more user-relevant. Various corporate governance codes have emphasized the increasing role of the board in mitigating agency problem and ensuring improved performance of corporations. Enofe, Iyafekhe and Eniola (2017) posited that effective board provides monitoring systems that curtail opportunistic behaviour of managers thereby increasing the quality of financial results. The increasing calls by various groups such as regulators, legislators, and investors, have led to more female representation in corporate boards across the world (Kumar & Zattoni, 2016) and the need for corporate board gender diversity is perceived as a good governance issue and not just a matter of gender equality (Plessis, Sullivan & Rentschler, 2014). Wide ranges of research have posited that the dynamics of corporate boards are positively affected by female directorship because female directors behave differently from their male counterpart thereby providing new board input. Such behaviour strengthens the monitoring role of the board and consequently firm performance (Adams & Ferreira, 2009). Therefore, inclusion of more women in corporate board is expected to induce more conservative reporting because women have been known to display a stronger ethical disposition which can subsequently curtail behaviour of managers to engage in aggressive reporting. This study examines accounting conversation influences by board gender diversity. The removing part of the paper is structured into literature review, methodology, results and the concluding aspect.

Literature Review

Board Gender Diversity

There is a growing body of literature on the need to diversify corporate board membership based on gender and how best to achieve such diversity. While some perceive diversity as opportunity to recruit the most effective mix of qualified people, others claim that such diversity is encouraged purely for political reasons (Damagum et al., 2014). Cornet and Warland (2008) described diversity as a political, social and organizational dimension that adds value to people's identity and personality.

Notwithstanding individual differences, gender balance in the Board gives rise to management and human resources optimisation strategies, thereby providing equal opportunities for people at work. According to Tariah (2019), diversity is linked to the notion that it promotes deeper understanding of an increasingly varied organisation. It has also been argued that, it gives better understanding of the complexities of the environment which encourage astute decisions, effective global relationships and raises awareness of cultural sensitivity within the environment. Similarly, diversity has been viewed from the perspective of membership of various backgrounds. For example, corporate boards are believed to perform better when its members cut across various backgrounds (Vafaei, Ahmed & Mather, 2015).

Accounting Conservatism

Financial Accounting Standard Board (FASB, 1980) saw the principle of conservatism as a way of taking care of risks and uncertainty in the business world by taking less positive accounting estimates if expected future payments and receipts are equally likely. Ishola (2012) described conservatism as the tendency of accountants to make choices that will present the lowest possible financial figures by providing for all possible losses and not recognising possible gains until they are realised. While various definitions were given by different researchers about conservatism, they all point to the same direction, though measuring the convention is not as straight forward. Despite being an age long convention in accounting, researchers differ on the best way to operationalise conservatism. Xia (2015) outlined in general terms the various measures in terms of; book-to-market measures, accrual measures, cash flow measures, and Basu measures. Through classifying conservatism into unconditional and conditional conservatism, Ball and Shivakumar (2005) found ways to reduce complexity and provide a consistent basis for evaluating and understanding conservatism. Accountants practice unconditional conservatism when they choose to underestimate the book value of net asset based on information available at the onset of asset life. Basu (1997) described the asymmetric timeliness of earnings as accounting conservatism. In essence, the asymmetrical way for testing earnings against losses is otherwise described as conservatism (Sterling, 1970; Watts, 2003). Beaver and Ryan (2005) defined conservatism as an average understating of net asset's book value in comparison with its market value.

Theoretical Framework and Development of Hypothesis

This study is underpinned by stakeholders' theory. Freeman (1984) has been credited as the leading scholar for stakeholder theory. Freeman has conceptualized the company's players as a group of individuals or people who influence or are impacted by the actions of the company. Hummels (1998) note that any individual or group whose position or association with an organization will contribute to defining the organization in terms of its purpose is the stakeholder. Investors, consumers and vendors as well as governmental agencies, political groups, industry related entities, trade unions, families, affiliated organizations, prospective employees, prospective customers and the general public are involved in the principle of stakeholder idea. In fact, a corporation cannot contribute to the value chain without stakeholder involvement and actions as opined by Freeman and Liedtka (1991) and as a result, its goal will tend to be unrealized because corporate success relies on stakeholder behaviour determinants such as desires and identity. Firms are practicing stakeholder management by giving women more opportunities to be part of the business decision making process. The emphasis of men on money and advancement can spur them to be less conservative in their decision-making process compared with women that lay emphasis on relationship and people. Therefore, this study presumes that more women in the corporate board implies more conservative accounting practices in Nigeria deposit money banks. Therefore, the study hypothesized that board gender diversity has positive impact on accounting conservatism in Nigeria deposit money banks.

Empirical Review

The influence of various aspects of board diversity on different accounting outcomes have been examined by a wide range of research. For example, board age and gender diversity. The information provided in comparison with other information sources was analyzed in another context by Damagum, Oba, Chima and Ibikunle (2004). Their finding suggests that the involvement of a female director does not boost credibility in financial reporting in particular, given the increasing proportion of women on the board. Therefore, in order to overcome this, the frequency of reporting was increased to quarterly reporting. Yet, Adams and Ferreira's (2009) research indicated that the female management strengthens the Board's monitoring function.

Similarly, in developed countries, effects of gender diversity on company performance were examined by Rodríguez-Domínguez, García-Sánchez and Gallego-Alvarez (2012) in Spain, using fixed and random effects. The findings show that women achieve better performance in fields typically controlled by men with similar work environments and academic backgrounds. Hill and Affes (2012) discovered no significant difference in reported earnings of boards with women and all-men boards in their study of listed firms in France between 2007-2010. Mutua (2013), in comparison, finds that the financial performance of insurance underwriters in Kenya is positively associated with the diversified board. The research was done using the process of Chi Square testing. The results demonstrate that the composition of the board is strongly related to financial performance. Ali, Ng and Kulik (2014) argued on board gender diversity using the business case for board age diversity. The results indicated a positive linear relationship between gender diversity and employee productivity. The influence of board gender diversity influence financial performance in Spain was examined by Şener and Karaye (2014). The study examined presence of independence directors and board size between Turkey and Nigeria. The result revealed that, in terms of gender equity and the presence of female directors, there was no statistically significant difference between both countries.

However, evidence from developed economies dominates the literature on the usefulness of board gender diversity. Some evidences are recorded in the developing economies. For instance, Obert, Suppiah, and Zororo (2015) used women board members as diversity tool for enhancing corporate governance and stakeholder value. The sample represents more than 95% of the capitalization of non-financial quoted Spanish firms. Statistics showed that women are selectively in the board but risk-averse; plan regularly for meetings, are proactive, cohesive and defend the organisation. Similarly, the gender diversity of corporate boards and the financial performance of a large group of Australia's top 500 companies were also examined by Vafaei et al. (2015). The study was conducted using the Ordinary Least Square (OLS), which showed that board diversity is positively linked to financial performance.

Reguera, Fuente and Laffaraga (2017), on the basis of a sample of 125 non-financial firms listed on the Madrid Bourse, looked into the relationship between the board's gender diversity and financial performance. The analysis shows the growth in the number of women in boards above 98 percent over the timeframe studied and was significantly

related to financial performance. A study on the impact of board of directors and conditional accounting conservatism, which was based on a pooled regression model, was also examined in Boussaid, Tunisia, and Danielle (2015). The result revealed that the attributes of the boards of directors are an important factor for assessing French firms' financial reporting quality. The Board's impact on the financial performance of listed deposit money banks in Nigeria was explored by Abu, Okpeh, and Okpe (2016). The method of data analysis used was multiple regressions and the role of international director was shown to have a significant and positive association on the performance of deposit money banks.

Enofe, Iyafekhe, and Eniola (2017) analyzed the race and gender of sex for non-financial companies listed in the Nigerian Stock Exchange in relation to their earnings management. It was established that the management of the profits is negatively related to the foreign board members, to females in the board and to board independence.

Methodology

This study is analytical in nature and thus used the *ex – post facto* research design. Secondary data on Deposit Money Banks were collected and analysed using descriptive and inferential panel method. Purposive sampling was adopted because all the fifteen deposit money banks listed under Nigerian Stock Exchange (NSE) as at December 2018, only 14 banks were used, over the periods 2012 – 2018 (7years). 2012 was chosen as the base year due to the IFRS adoption in Nigeria.

The study is limited to only Deposit Money Banks on Nigerian Stock Exchange. To achieve the objectives of the study, data sourced were secondary in nature and collected from annual financial report of quoted deposit money banks listed on the Nigerian Stock Exchange (NSE).

In achieving the objectives of this study, Panel regression (fixed effect) technique was employed to test the hypothesis of the study. The R^2 and F tests were also used to examine the significance and predictive power of the model. To achieve this, the model for the study was adapted from the work of Basu (1997) which is stated below;

The original reverse-regression model is shown as follows:

$$X_{it} / P_{it-1} = \alpha_0 + \alpha_1 DR_{it} + \beta_0 R_{it} + \beta_1 R_{it} * DR_{it} + \varepsilon_{it} \quad \dots \dots \dots (1)$$

Where:

X_{it} = Earnings per share for firm i fiscal year

P_{it-1} = Price per share at the beginning of fiscal year

DR_{it} = is a dummy variable

R_{it} = Return in firm i from before fiscal year, ε_{it} = error term

For the purpose of this study, the variable interacts with DR , R and $R*DR$. Therefore, the new empirical as shown in Equation 2

$$X_{it} / P_{it-1} = \alpha_0 + \alpha_1 DR_{it} + \beta_0 R_{it} + \beta_1 R_{it} * DR_{it} + \beta_2 BGD_{it} + \beta_3 BGD_{it} * DR_{it} + \beta_4 BGD_{it} * R_{it} +$$

$$\beta_1 BGD_{it} + \beta_2 R_{it} + \beta_3 DR_{it} + \beta_4 LIT_{it} + \beta_5 CONQ_{it} + \beta_6 LEV_{it} + \beta_7 SIZE_{it} + \epsilon_{it} \dots \dots \dots (2)$$

In the case of this model, DR_{it} = dummy variable (equal to 1 if the CEO of the Banks is a female and otherwise). The dependent variable which is Earning Per share (EPS) was measured as the quotient of profit after interest & tax and the number of ordinary shares while accounting conservatism was measured using Basu's model of 1997. Similarly, board gender diversity (BGD) represents the percentage of female directors on the board. For the control variables, litigation risk (LIT) was a dummy variable (equal to 1 if the Bank belongs to the big Bank Category and 0 otherwise) while contract cost of debt (LEV) was measured as total long-term debt divided by average total assets. Furthermore, firm size (SIZE), contract cost of equity (CONQ) and return (R) represents the natural logarithm of average total assets, percentage of outsiders on the board, and return respectively.

Results and Discussion

This section presents the data analyses and interpretation of results. It provides the summary statistics, preliminary tests, model estimation, and discussion of findings. Table 1 presents the summary statistics of the variables in the model. Based on Wooldridge (2013), net income (NI) is rescaled by dividing in million to avoid measurement unit error. The table shows that, on the average, the quoted deposit money banks (DMBs) recorded a net income (NI) of ₦13.22billion. Among the quoted DMBs, highest loss is (₦5.04) billion and the highest income recorded is ₦126.84. Board gender diversity (BGD) has an average of 19.20% with a minimum and maximum value of 0% and 40% respectively. This implies that proportion of females in the board committee among the quoted DMBs is relatively low. Return dummy (DR) has a mean value of 0.41 and this suggests that, on the average, the quoted DMBs recorded more negative returns than positive returns. Returns (R) has an average of 0.66%, thus implying that on the average, the quoted DMBs experienced relatively low profitability over the period under review. R has a maximum value of 10.51% and minimum value of -11%. Litigation risks (LIT) is a dummy variable with a mean value of 0.36. On the average, contract cost equity (CCE) is 7.09 and this suggests that there is low proportion of outsiders as board members of the quoted DMBs. CCE has a minimum and maximum value of 4% and 10% respectively. The mean value of leverage (LEV) is 0.30 and this suggests that on the average, the quoted DMBs are not highly levered. LEV has a minimum value of 0.01 and maximum value of 1.68. The mean value of size (SIZE) is 17.01 and there is a wide margin between the minimum and maximum value of SIZE, thus indicating that the quoted DMBs are significantly different in size.

Table 1: Summary Statistics

Variable	Mean	Minimum	Maximum	Observation
NI	13.22	-5.04	126.84	98
BGD	19.20	0	40	98
DR	0.41	0	1	98
R	0.66	-11	10.51	98
LIT	0.36	0	1	98
CCE	7.09	4	10	98
LEV	0.30	0.01	1.68	98

SIZE	17.01	11.19	21.85	98
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Source: Author's computation (2019)

Test for Multicollinearity

The preliminary tests consist of test for multicollinearity and model selection test. Multicollinearity arises when an independent variable in a model is strongly related to another independent variable (i.e. they are highly correlated). The variance inflation Factor (VIF) test was used to detect the presence of multicollinearity among the independent variables. The rule of thumb for the VIF test states that the VIF must be less than 10, to confirm that the multicollinearity is not a problem in the regression model. Table 2 shows that all the variables have a VIF value less than 10, thus indicating that there is no strong evidence of collinearity among the independent variables.

Table 2: Multicollinearity Test Result

Variable	VIF
BGD	1.08
R	1.52
DR	1.53
LIT	1.09
CCE	1.09
LEV	1.07
SIZE	2.06

Source: Author's computation (2019)

Model Selection Test

The static panel regression analysis used in this study comprises of either estimating the pooled ordinary least squares (OLS), fixed-effects or random-effects model based on some preliminary tests. Table 3 presents the model selection tests. The model selection tests for this study include Breusch-Pagan LM test for random-effects and Hausman test. The Breusch-Pagan LM test for random-effects determines whether pooled OLS is appropriate or there is need to proceed to estimate either fixed-effects and random-effects model. The Hausman test is performed to determine the model to be preferred between the fixed-effects and random-effects model. Table 3 shows that the Breusch-Pagan LM test rejects its null hypothesis, thus indicating that pooled OLS is not appropriate. Hence, there is need to use either fixed-effects or random-effects model. The Hausman test rejects the null hypothesis and indicates that random-effects model should be preferred over fixed-effects model.

Table 3: Model Selection Result

Test	Null Hypothesis	Test statistic	Decision
Breusch-Pagan LM test for random-effects	Variance of random-effects is zero	73.11(0.0000)*	Pooled OLS is not appropriate
Hausman test	No systematic difference in fixed-effects and random-effects model estimates	9.42(0.1511)	Random-effects model is appropriate

Note: *denotes rejection of null hypothesis at 1% significance level and p-values are reported in parentheses.

Source: Author's computation (2019)

Model Estimation

Table 4 presents the results of the random-effects model estimated with the Generalized Least Squares (GLS) estimation method. Table 4 shows that the coefficient of the BGD is negative but not statistically significant, thus indicating that board gender diversity does not influence accounting conservatism in quoted DMBs in Nigeria. Also, R and DR are not statistically significant and this implies that returns and dummy for returns do not affect accounting conservatism of quoted DMBs in Nigeria. Concerning the control variables, LIT and SIZE are positive and statistically significant while CCE and LEV are negative but not statistically significant. The results show that accounting conservatism of quoted DMBs in Nigeria tends to increase as litigation risk and size increase. On the other hand, contract cost equity and contract cost debt (leverage) do not affect accounting conservatism of quoted DMBs in Nigeria.

Table 4: Estimation Results

Variable	Coefficient
Constant	-24.14 (0.184)
BGD	-0.01 (0.965)
R	0.13 (0.741)
DR	-1.22 (0.652)
LIT	24.07 (0.041)**
CCE	-0.83 (0.288)
LEV	-1.34 (0.774)
SIZE	2.08 (0.026)**
Model Diagnostics	
Wald χ^2	12.53 (0.0000)*
R ²	0.4161

Notes: * and ** indicate statistically significant at 1% and 5% significance level respectively. Also, p-values are reported in parentheses.

Source: Author's computation (2019)

Discussion of Findings

This study examines the effect of board gender diversity on accounting conservatism in quoted DMBs in Nigeria. The estimation results showed that board gender diversity is not significantly related to accounting conservatism. Therefore, the hypothesis that board gender diversity has a significant effect on accounting conservatism of quoted DMBs in Nigeria is not rejected. This implies that increase in female representation in the board of quoted DMBs in Nigeria would not affect accounting conservatism. Returns and dummy for returns are not significantly related to accounting conservatism; therefore, change in returns does not influence accounting conservatism of quoted DMBs in Nigeria.

Among the control variables, only litigation risk and size positively relate to accounting conservatism. This implies that quoted DMBs in Nigeria with higher litigation risk tend to be more accounting conservative. Also, larger quoted DMBs in Nigeria are likely to be

more accounting conservative. The findings from this research are in line with that of Hill and Affes (2012), but contrasts Adam and Ferriera (2009)

Conclusion and Recommendations

This study examined the influence of gender diverse boards on Nigeria's accounting conservatism in Deposit Money Banks. Using a panel regression (fixed-effect) methodology, the hypothesis was tested and no statistically significant association between board gender diversity and accounting conservatism was identified. It was also discovered that female CEO has no statistical relationship with accounting conservatism. However, litigation risk and firm size have statistically positive relationship with accounting conservatism. This implies that quoted DMBs in Nigeria with higher litigation risk and larger size tend to adopt more conservative accounting. This study concludes, therefore, that the diversity of the board's gender in DMBs does not affect Nigeria's accounting conservatism and female CEO also has no effect on the level of conservative accounting adopted by Nigeria DMB. In line with the findings of this research, the study recommends that the big banks should adopt more conservative reporting to avoid litigation. Similarly, rather than gender, merit should be used as basis for appointment to the board.

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